Province of Prince Edward Island

Budget Highlights 2006

On Course. On Target.

Presented by
The Honourable Mitch Murphy

Provincial Treasurer
and
Chair of Treasury Board

March 30, 2006

Prince Edward Island

Budget Highlights 2006-2007

On Course. On Target.

Index

Index 1

Overview 3

Fiscal Responsibility 4

Where the Money Comes From 7

Where the Money Goes 8

Health 9

Social Services and Seniors 10

Education 11

Other Additional Funding 12

Summary Statistics 13

Prince Edward Island

Budget Highlights 2006-2007

On Course. On Target.

Overview

Priority Areas

- Fiscal Responsibility
- Health
- Social Services and Seniors
- Education
- Community and Resource Development

We are on course in meeting our objective of improving the level of service delivered to Island residents and on target with respect to our financial goals.

Mitch Murphy
Provincial Treasurer

Budget Summary:

	2006-2007 Estimate ($ millions)	2005-2006 Forecast ($ millions)	2005-2006 Estimate ($ millions)
Revenue:			
Provincial Own Sources	678.5	670.6	654.9
Federal Sources	458.8	433.5	438.2
Sinking Fund Earnings	17.3	12.7	12.6
Net Consolidated Surplus (Deficit) of Crown Corporations	1.9	4.4	(2.1)
Total Revenue	**1,156.5**	**1,121.2**	**1,103.6**
Expenditure:			
Program Expenditures	1,012.9	989.8	972.7
Interest Charges on Debt	118.3	112.5	114.0
Operating Expenditure	1,131.2	1,102.3	1,086.7
Depreciation Expense	37.8	36.9	38.9
Total Expenditure	**1,169.0**	**1,139.2**	**1,125.6**
Consolidated Deficit	(12.5)	(18.0)	(22.0)

Forecast 2005-2006:

The Forecast Consolidated Deficit is down from $22 million to $18 million.

Revenues:

Total Revenue is up $17.6 million, which results primarily from an increase in provincial own source revenues. The main increases result from growth in personal and corporate income taxes which makes up $14.8 million of the total increase.

Expenditures:

Total Operating Expenditures are up $15.6 million which is made up of a $6.6 million increase in Health, a $2.3 million increase in Social Services and Seniors and a $6.7 million increase in other areas including:

Salary and Benefits	$ 3.3 million
Farm Income Risk Management	$ 1.2 million
Business Development Programs	$ 1.2 million
Energy Assistance Program	$ 0.5 million
East Coast Music Awards	$ 0.2 million

Budget Estimate 2006-2007:

Tax Measures:

A multi-year plan to bring the Small Business Tax Rate from 6.5% to 1% over the next five years. Effective April 1, 2006, the Small Business Tax rate will be reduced to 5.4%.

	Fiscal Year				
	06/07	**07/08**	**08/09**	**09/10**	**10/11**
Small Business Tax Rate	5.4%	4.3%	3.2%	2.1%	1.0%

Revenues:

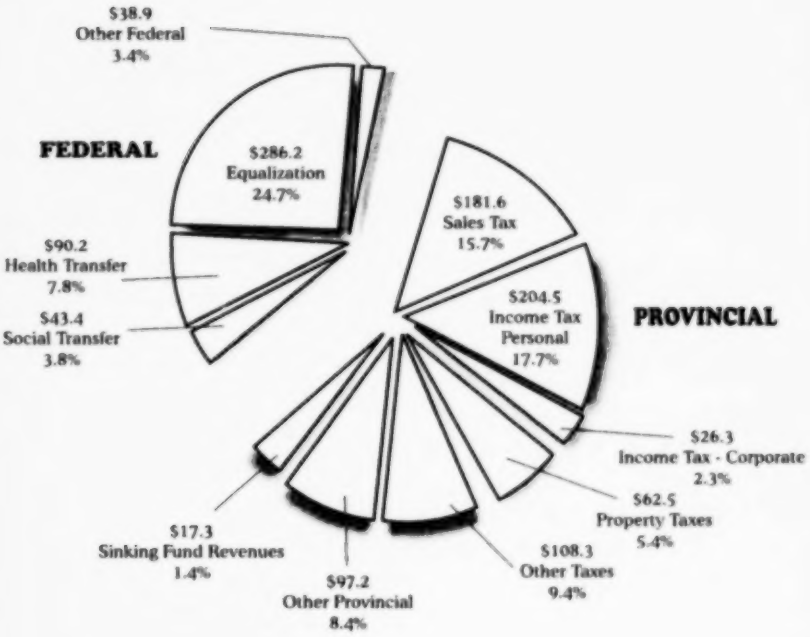
Provincial source revenues will increase 3.6% or $23.6 million from the 2005-06 Budget Estimates. This is due mainly to increases in revenues from personal income tax, property tax and gasoline tax.

Federal source revenues will increase by $20.5 million or 4.7% which is made up of increases in Equalization, Canada Health Transfer, Canada Social Transfer, Infrastructure Works and Wait Time Reduction.

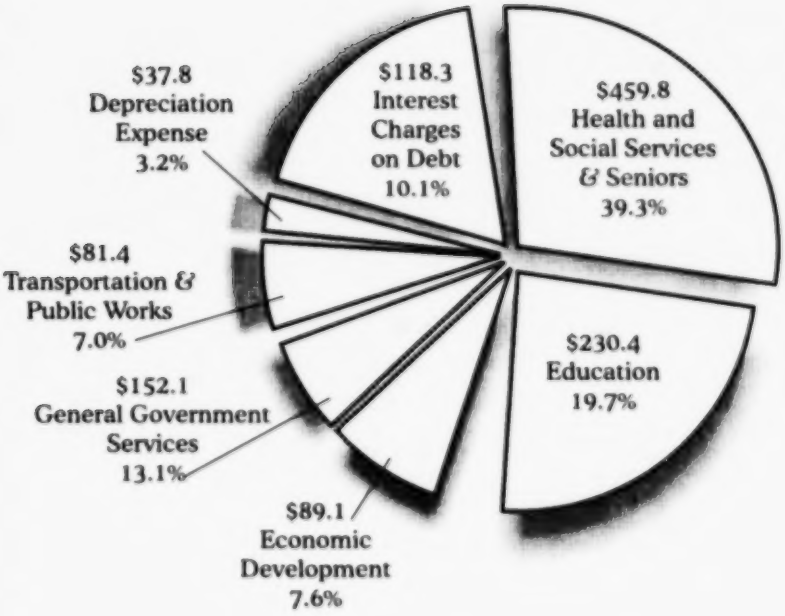
Expenditures:

Program expenditures are up $40.2 million. Most of the increase is in Health $19.2 million, Education $10.6 million and Social Services and Seniors $8.2 million.

2006-2007 Revenues
Where the Money Comes From
($ millions)



2006-2007 Expenditures
Where the Money Goes
($ millions)



Highlights

- Nurse Practitioners Legislation is in place for the creation of Nurse Practitioner positions.
- Increased the number of physicians from 153 in 1997 to 178 as of December 2005.
- Increased the number of nurses from 1,411 in 2001 to 1,557 in October, 2005.
- Completed construction of the Souris Hospital annex to house the family health centre, addictions, community health and public health nursing.
- Provision of $2.7 million to physician services, including recruitment in 2006-2007.
- Reinstatement of the nurses recruitment strategy sponsorship, Bachelor of Nursing summer employment program and health futures program at a cost of $913,000.
- Increase funding to the Oncology Centre of $275,000.
- Approve the development of a $14 million Clinical Information System.

Social Services and Seniors

Highlights

- Addition of Alzheimer drug in July 2005 to assist 115 people.
- Through the Early Learning Child Care Agreement provided $1.36 million to early childhood centres and educators.
- Invested $450,000 in the Child Care Subsidy Program.
- A series of oral diabetes medications will be added to the Provincial Drug Program along with two new oral cancer medications at a cost of $669,000.
- Additional funding of $139,000 towards non-profit organizations.
- Provide funding of $850,000 to community organizations to support residential and vocational needs.
- Support of $637,900 to Brackley House which houses six special needs children.
- Provide $2 million in support of a rate increase at community care facilities and the shelter ceiling for rental accommodations for social services recipients.
- Increased funding for Best Start of $237,000.

Education

Highlights

- Completed the Final Report of the Task Force on Student Achievement.
- Commit $9 million over the next three years to implement recommendations of the Task Force on Student Achievement.

2006-07	$1 million
2007-08	$3 million
2008-09	$5 million

- Will reactivate the staffing model for teachers by adding 6 new positions this year and maintaining 30 teachers as student enrollment declines. This represents an investment of $2 million.
- Will add an additional $1.3 million to School Boards for fuel, electricity and other operating costs.
- Will increase funding to UPEI by $1.25 million and Holland College by $750,000 to fund increased costs of operations.
- Will provide UPEI with $1 million for our commitment towards the Building a Legacy campaign for capital projects.
- Will add an additional $220,000 for school library collections.
- Will provide additional funding for community schools.

Other Additional Funding

- Have contributed $11.3 million to Infrastructure Programs in 2005-06 and will contribute a further $15.9 million in 2006-07.
- Have contributed $2.7 million to the 2009 Canada Summer Games.
- Increased marketing funding for tourism by $930,000.
- Provide funding of $500,000 towards organic marketing development, training, risk management and business planning. An additional $1 million will be provided in years 2 to 5.
- Contribution of $200,000 towards the investigation of invasive species under the Aquaculture and Fisheries Research Initiative.
- The new Canadian Agricultural Stewardship Program will be launched to continue and expand upon on-farm conservation projects.
- Additional funding towards the RCMP "L" Division to develop a street level drug team.
- Construction of a 30-megawatt wind farm in eastern Prince Edward Island is expected to begin in early summer.
- Extension of the Residential Energy Assistance Program at a cost of $379,000.

Summary Statistics

	2004	2005
Population on 1 July (thousands)*	137.9	138.1
Personal Income per capita* ($)	25,109	26,196[1]
As % of Canadian personal income	*82.8*	*83.0*[1]
Employment (thousands)*	66.9	68.2
Unemployment Rate - P.E.I. (%)	11.3	10.8
Unemployment Rate - Canada (%)	*7.2*	*6.8*
CPI - Annual Change P.E.I. (%)	2.1	3.2
CPI - Annual Change Canada (%)	*1.9*	*2.2*
Retail Trade ($ millions)*	1,384.7	1,427.9
New Motor Vehicle Sales (units)	4,696	4,847
Farm Cash Receipts ($ millions)*	345.6	363.7
Potato Receipts ($ millions)*	151.1	161.7
Lobster Landings ($ millions)*	100.1	103.2
*Lobster Landings (lbs - millions)**	*19.9*	*18.5*
Housing Starts (units)	919	862
Investment ($ millions)	723.6	768.3
Manufacturing Shipments ($ millions)*	1,414.2	1,486.0
Tourist Visitations (thousands)*[2]	913	n.a.
International Exports in Goods ($ millions)*	644.4	772.6
GDP at Market Prices ($ millions)*	4,023	4,237[1]

* Revised Data n.a. Data not available

[1] Provincial Treasury estimate [2] Visitations do not include business travel and motorcoach travel.

Sources: Statistics Canada; CMHC; Tourism PEI; PEI Department of Agriculture, Fisheries, and Aquaculture

Province of Prince Edward Island

Budget Address 2006

On Course. On Target.

Presented by
The Honourable Mitch Murphy

Provincial Treasurer
and
Chair of Treasury Board

March 30, 2006

106-03672/

Prince Edward Island

2006 Budget

On Course. On Target.

Presented to
The Members of the Legislative Assembly of Prince Edward Island

by

Honourable Mitch Murphy

Provincial Treasurer
and
Chair of Treasury Board

March 30, 2006

The full texts of the Budget Address, Estimates of Revenue and Expenditure and supporting schedules for 2006-2007 and previous years are available on the Province of Prince Edward Island's website:

http://www.gov.pe.ca/budget

PRINCE EDWARD ISLAND
2006 BUDGET

TABLE OF CONTENTS

THE BUDGET ADDRESS

On Course. On Target 1
The Capital Budget 2
The Economy 3
Equalization 4
Fiscal Outlook 5
Program Evaluation 6
On Course to Improved Education 7
On Course to Improved Health Care 12
On Course to Create More Jobs 14
On Course to Welcome More Tourists 15
On Course in Improving Community Infrastructure 16
On Course for the Canada Games 17
On Course to Improve Social Services and Seniors 18
On Course with Environmental Protection 20
On Course to Assist Agriculture, Fisheries and Aquaculture 22
On Course With Programs of the Attorney General 23
Conclusion 24

BUDGET SCHEDULES

BUDGET PAPER A: BACKGROUND NOTES ON THE ECONOMY

BUDGET PAPER B: FEDERAL FISCAL ISSUES

THE BUDGET ADDRESS

On Course. On Target.

Mr. Speaker, Members of the Legislative Assembly.

In this, my third Budget, I am pleased to report that we are on course in meeting our objective of improving the level of service delivered to Island residents and on target with respect to our financial goals.

In this Budget, I will be announcing a total of $27 million in new initiatives and programing. These initiatives will cover a broad spectrum from funding the recommendations of the Task Force on Student Achievement to increasing the rates provided to Community Care facilities.

" ...I will be announcing a total of $27 million in new initiatives and programing."

In this Budget, I will be announcing no new taxes. In fact, I will be announcing a significant tax reduction strategy which will be accomplished within our fiscal targets.

"...I will be announcing a significant tax reduction strategy which will be accomplished within our fiscal targets."

The provincial economy continues to perform well. Our estimates show that economic growth in 2005 was somewhat better than what was anticipated last spring. P.E.I. experienced strong growth in employment, exports and construction investment in 2005. I will discuss the economy in greater detail later in my address.

Mr. Speaker, since I became Provincial Treasurer I have made it my goal to ensure Government lives within its budget. It goes without saying, there are always unforeseen circumstances for

which one cannot predict. However, that being said, prudence and proper planning can and will provide for such circumstances.

I am pleased, Mr. Speaker, to stand before you to say that we have, for the past two years, met or exceeded our budget expectations. In 2004-05, we budgeted for a $33 million deficit. We subsequently forecast a deficit of $39.5 million to provide for Workforce Renewal. I am pleased to report that we were able to execute the Renewal Program and stay within the original Budget of $33 million. In 2005-06, we forecast a Budget deficit of $22 million. We are now forecasting a deficit of $18 million which is an improvement of $4 million over our original budget.

" In 2005-06, we forecast a Budget deficit of $22 million. We are now forecasting a deficit of $18 million ..."

Mr. Speaker, we are not only on target with respect to our budgets, we are on course to improve the level of service to Islanders, particularly in the areas of highest priority to them - health and education.

The Capital Budget

Mr. Speaker, last Fall I introduced the Province's first-ever Fall Capital Budget. It detailed more than $54 million in spending in 2006-07 on critical infrastructure for the Province. During the course of the next five years, we anticipate spending approximately $248 million on Capital projects. Last Fall, we moved to a separate Capital Budget to enable contractors to better prepare for the construction season and to take advantage of potential cost-savings. From the Province's perspective, we have achieved the desired results. All tenders received to date have come in lower than our estimates.

"...the next five years, we anticipate spending approximately $248 million on Capital projects."

The Capital Budget contained initiatives in education valued at $9.4 million in 2006-07. We have also committed $4.3 million in 2006-07, to capital improvements in health. This includes $300,000 in design costs towards the $20 million to be spent on the Queen Elizabeth Hospital in the next five years.

The largest Capital budget is reserved for the Department of Transportation and Public Works. The Department will concentrate its effort on upgrading Route 2, the vital economic link for the Province. Additionally, the Department will plan the replacement of the 1,200 bridge structures in the Province. In all, Transportation and Public Works will spend $33 million on capital in 2006-07.

The Economy

Mr. Speaker, the Prince Edward Island economy faired well in 2005. Growth of the provincial economy was in the order of 2.0 per cent for 2005. This compares to the growth in the National economy of 2.9 per cent.

The provincial economic expansion in 2005 was supported by strong employment growth, a robust commercial construction sector and solid manufacturing and export performances.

" Growth of the provincial economy was in the order of 2.0 per cent for 2005."

Prince Edward Island experienced the highest rate of employment growth in Atlantic Canada and the second highest in the country, second only to British Columbia. For P.E.I., employment rose by 1.9 per cent to average 68,200 and helped to reduce the unemployment rate to 10.8 per cent in 2005, its lowest level in 25 years.

"For P.E.I., employment rose by 1.9 per cent to average 68,200 and helped to reduce the unemployment rate to 10.8 per cent in 2005, its lowest level in 25 years."

Based on Statistics Canada estimates, investment in non-residential building construction on P.E.I. increased by 24 per cent in 2005, the third highest growth rate in the country. New housing starts totaled 862 units. While the number of housing starts declined 6.2 per cent compared to 2004 levels, housing construction on P.E.I. remains high by historical standards.

The value of manufacturing shipments in 2005 increased by 5.1 per cent. Growth in manufacturing was driven by a 23 per cent increase in fish processing. Island exports of merchandise goods to international destinations totaled $809.9 million in 2005, an

increase of nearly 21.4 per cent, the highest rate of growth in Canada.

Mr. Speaker, P.E.I. experienced improvements in other areas of the provincial economy as well. Personal income on Prince Edward Island is estimated to have increased by 4.3 per cent in 2005 and retail spending rebounded by 3.1 per cent following two years of slow growth.

Farm cash receipts recovered in 2005 due in part to improved prices for potatoes and beef.

As mentioned earlier, Mr. Speaker, the provincial economy was subject to a number of mitigating effects that limited the overall rate of economic growth in 2005. Lower lobster landings combined with the impact of higher interest rates and gasoline prices slowed the pace of economic expansion.

"...we estimate an improved rate of economic expansion for the Provincial economy."

Mr. Speaker, looking forward to 2006, we estimate an improved rate of economic expansion for the Provincial economy. Growth of the P.E.I. economy is projected to be in the order of 2.2 per cent. Growth is expected to be supported by ongoing strength in non-residential construction activity and manufacturing growth. Risks to our outlook include the high value of the Canadian dollar and high energy prices.

More information on the economy is contained in Budget Paper A.

"Growth of the P.E.I. economy is projected to be in the order of 2.2 per cent."

Equalization

Mr. Speaker, you will see in this Budget that we have provided for $286.2 million in equalization payments from the Federal Government. This amount is as a result of the agreement of First Ministers in the Fall of 2004.

As you will no doubt recall, Mr. Speaker, equalization became a

significant issue for us during the recent Federal election. The then Finance Minister Ralph Goodale had indicated to us his intention to introduce legislation which would have reduced our 2006-07 allocation by $6.7 million. I am pleased to report, the legislation was never introduced. During the Federal election campaign, Prime Minister Harper committed that PEI would be no worse off than it would be with the current legislation. Our budget number of $286.2 million reflects that fact.

The Province looks forward to the reports of two task forces established to review the equalization formula. The Federal Government established a group, as did the Council of the Federation. We have made our position clear, in that, without the final formula determined, equalization must be whole. It must be robust enough to provide provinces with the ability to deliver comparable levels of service at comparable levels of taxation.

Fiscal Outlook

"For the fiscal year 2006-07, the Province is estimating a deficit of $12.5 million."

Mr. Speaker, as the theme of this speech indicates, this Government is on course towards a balanced budget target for 2007-08. For the fiscal year 2006-07, the Province is estimating a deficit of $12.5 million.

It is this Government's objective to stay on the same course as we have in the past two years, we plan to have an actual deficit less than we are tabling today.

This Budget has $1.2 billion in revenues, an increase of 4.8 per cent over the 2005-06 Budget Estimate. Provincial own source revenues are up $23.6 million while Federal sources are up $20.6 million. Total operating expenditures will rise by $45 million. The major increases are in Health, Social Services and Seniors and Education, which makes up $38 million of the total increase.

" The major increases are in Health, Social Services and Seniors and Education, which makes up $38 million of the total increase."

I will go into more detail of these expenditure increases later in

the address.

Two of the key indicators that our bond raters use to determine our ratings are the Debt-to-GDP ratio and interest bite. I am pleased to announce that our interest bite will remain constant at 10.2 per cent which is comparable to the past two years. The Debt-to-GDP ratio is projected to be approximately 36 per cent, which was the same for 2004-05 and 2005-06.

Mr. Speaker, part of our ongoing strategy is to pay down high interest rate debt. In 2005 we issued a $100 million 30-year Debenture at a rate of 4.6 per cent. That is the lowest rate in 30 years. These funds will be used to pre-finance debt as it becomes due. As stated last year, the Province has made the first of 10 annual payments of $16 million to the unfunded liability of the Teachers Superannuation Fund. These special payments are aimed at bringing the unfunded liability to 90 per cent funding status.

"The Debt-to-GDP ratio is projected to be approximately 36 per cent..."

Program Evaluation

In my 2004-05 Budget, I provided detailed initiatives around our Program Renewal effort. In all, we reduced expenditures by approximately $22 million and reduced the provincial workforce by 834 individuals, which amounted to more than 500 Full Time Equivalents.

In its annual brief, the Canadian Bankers Association stated, " We commend the Government for PEI's fiscal progress to date, including the steps taken to eliminate the deficit, control program spending and raise additional revenue through consumption taxes. We also appreciate the Government's attempt to balance important PEI priorities such as health care, education and jobs, with the need to achieve fiscal sustainability and a balanced budget."

"... we reduced expenditures by approximately $22 million."

While, Mr. Speaker, it is clear that we are on our target of moving in the direction of a balanced budget. We are doing that because of our accomplishments through Program Renewal. And, Mr. Speaker, we continue to look at means to lessen duplication and overhead so that we may deliver the best possible services. The Program Evaluation unit continues to find efficiencies and improvements.

On Course to Improved Education

Mr. Speaker, our Government has continued to invest in education because we know that education is the best investment we can make in our future.

"... education is the best investment we can make in our future."

Education enables individuals to have a good income, to be healthy and to have a high quality of life. An educated workforce increases productivity and enables our economy to grow.

Over the years, we have invested heavily in a range of learning opportunities for Islanders at the kindergarten, elementary, secondary and post-secondary levels. We have also made substantial investments in skills training, adult literacy and lifelong learning opportunities.

Today, we spend on average over $7,100 annually on each child's education compared to $4,900 ten years ago. Provincial Government spending on post-secondary learning increased by more than 50 per cent in the last six years. Total provincial spending on education rose from $168 million in 1996 to $230 million in 2006, an increase of 37 per cent. Through this investment Mr. Speaker, we established a provincial kindergarten program and funded family literacy initiatives.

"Total provincial spending on education rose from $168 million in 1996 to $230 million in 2006, an increase of 37 per cent."

In our public schools we reduced class size and provided more access to specialized teachers and resources. We updated curriculum, introduced technology, built new schools and developed inclusionary practices.

In our post-secondary institutions we saw enrollments increase over 30 percent. We funded new university and college facilities and witnessed tremendous growth in research capacity.

Last year, our Premier established a 13-member Task Force to recommend ways to improve student achievement in our Province. Through extensive consultations, the Task Force on Student Achievement received tremendous input from educators, parents, students and other Islanders.

The report of the Task Force contains excellent recommendations to better prepare our young people to go on to higher learning, to succeed in the workplace, and to become good citizens.

Mr. Speaker, we are firmly committed to improving student achievement in our Province and today we are making a commitment to provide $9 million over the next three years to implement the recommendations of the Task Force on Student Achievement.

"...to provide $9 million over the next three years to implement the recommendations of the Task Force on Student Achievement."

This Budget contains $1 million to begin this work in 2006-2007. That figure will rise to $3 million in 2007-2008 and to $5 million in 2008-2009.

This funding will enable the Department of Education to work with school boards and teachers to develop curriculum that includes clear standards and benchmarks, as well as common assessment tools to measure student achievement in Grades 3, 6, 9 and at the high school level. This is a major undertaking that will require careful planning and considerable time to implement. It is valuable work that will provide us with the tools we need to measure student achievement based on clear outcomes and high standards that are consistent from class to class and school to school.

The Task Force also recommended strongly that resources be added to ensure that children are reading by the end of Grade 3.

The new funding we are announcing today will enable us to identify the resources and strategies we will use to ensure that all children will have the support they need to read at a Grade 3 level by the end of Grade 3.

Funding will be provided to develop curriculum to support the new Trades Training Strategy, and to help students achieve the literacy and numeracy proficiencies needed to be accepted to technical and trades programs.

"Funding will be provided to develop curriculum to support the new Trades Training Strategy..."

A full-time Aboriginal and Diversity Education Specialist position will be provided to address the Task Force recommendation to enhance supports for Aboriginal and immigrant students.

In addition to these major investments in curriculum, assessment and early learning, we will begin immediately to address other recommendations of the Task Force, beginning with the re-instatement of the Instructional Staffing Model, which had to be put on hold for a one-year period. By re-activating the staffing formula, we will add six new positions this year and maintain approximately 30 teachers that would otherwise have been lost due to declining enrolments. Mr. Speaker, this represents an investment of approximately $2 million this year.

Some of these new positions will be designated for psychologists who will work in the schools to assess and support children with learning difficulties. They will also work with the new Provincial Learning Disabilities Specialist as part of a coordinated approach to improving assessment and interventions for children with learning disabilities.

"School Boards will receive an additional $1.3 million in the upcoming year..."

Mr. Speaker, we will make an additional $220,000 available this year to improve school library collections. School Boards will receive an additional $1.3 million in the upcoming year to address increased operating costs such as fuel, electricity and insurance. The School Boards will receive $1 million for Capital repairs

such as window replacements and parking lot improvements.

Mr. Speaker, approximately 20,000 children ride the bus to school each day and their safety is of primary concern to Islanders. Through our five-year bus replacement strategy, we purchased 15 new school buses last year at a cost of $1.2 million. We will purchase another 16 school buses this year and we will progressively increase the annual replacement rate to 24 buses in 2010. This represents an increase of 60 per cent in our annual bus replacement rate.

We are making good progress in school construction and planning. Construction of a new French school in West Prince and the $3 million renovation and expansion of Parkside Elementary School in Summerside will start this spring. Committees will be established and planning will begin for a gym addition at Tracadie Cross Consolidated School and a major high school project in Montague. Construction of both projects will begin in 2007.

"We will purchase another 16 school buses this year and we will progressively increase the annual replacement rate to 24 buses in 2010."

Mr. Speaker, we are proud to support the excellent progress being made in post-secondary learning in our Province. In the past five years, enrollments at UPEI and Holland College increased by over 30 per cent. Major investments were made in facilities and technology. Research and development capacity more than doubled. Opportunities were created for Island students to take post-secondary courses in the French language through La Société éducative.

Mr. Speaker, this progress is very important because post-secondary education and skills training are more valuable than ever before. In the next decade, it is expected that over 60 per cent of new jobs will require some university or college education. At the same time, the number of new jobs that require high school or less will become fewer and fewer. For these reasons Mr. Speaker, it is important that Islanders continue to have post-secondary education that is accessible and affordable.

I am pleased to advise that we will provide new funding of $1.25 million this year to UPEI and $750,000 to Holland College to help with increasing costs. We will also work with our Atlantic counterparts to negotiate a new multi-year funding agreement for the Atlantic Veterinary College at UPEI.

"...new funding of $1.25 million this year to UPEI and $750,000 to Holland College to help with increasing costs."

UPEI will also receive an additional $1 million as part of our ongoing commitment to the campus renewal campaign. This year we look forward to the official opening of the National Research Council Institute for Nutrisciences and Health at UPEI and the many new opportunities it will provide the University and our Province.

"UPEI will also receive an additional $1 million as part of our ongoing commitment to the campus renewal campaign."

We are pleased to be a funding partner in the new Centre for Labour Force Innovation scheduled to open in September 2006 at Holland College. The Centre will offer new learning opportunities in emerging sectors such as bioscience and information technology. Just a few weeks ago, Holland College became the first college in Canada to offer an Applied Degree in Culinary Operations, and the first college in Atlantic Canada to offer an applied degree.

Mr. Speaker, we are also proud of the significant work that has been done this past year by the Premier, the Minister of Education, post-secondary institutions and our regional partners to increase awareness of the importance of post-secondary education and to encourage investment in this area. Working together, we can be more effective in fostering post-secondary learning that will help us to remain competitive and maintain our high standard of living in the new economy.

"...Holland College became the first college in Canada to offer an Applied Degree in Culinary Operations..."

Mr. Speaker, we recognize that learning does not end after high school, university or a training program, but it continues throughout our lives. This year, we made major strides in the development of a provincial literacy and learning strategy. A Premier's Literacy Summit is now being planned, and a social marketing campaign will soon be launched to increase awareness

that reading is the key to all learning and that it is never too early or too late to learn.

On Course to Improved Health Care

Mr. Speaker, Islanders continue to tell us that a good health care system is of paramount importance to them. The past year has been witness to some major changes in the Island health care system. We eliminated the five regional health authorities and thereby saved $9 million dollars in administration and duplication. At the same time, we re-established the five Community Hospital Boards for the five rural hospitals in the Province.

In the past year, we introduced Nurse Practitioner Legislation. Now that it is in place and a Nurse Practitioner Position Assessment Committee is organized, it is anticipated that several proposals will be developed for the creation of Nurse Practitioner positions.

" ...several proposals will be developed for the creation of Nurse Practitioner positions."

Mr. Speaker, we were part of a collaborative effort which successfully launched the Sharps Exchange Program in Island Pharmacies. Through this Program, safe needle disposal containers are available free of charge to all Island residents for syringes, needles, lancets and EpiPens. They are available at all Pharmacies, AIDS PEI, the Diabetes Association, or a Diabetes Education Centre.

"The recruitment and retention of physicians and staff remains a priority for this Government..."

The recruitment and retention of physicians and staff remains a priority for this Government, Mr. Speaker. We now have the most doctors and nurses practicing in the history of the Province. For example, in 1997 there were 153 physicians in the Province. By December 2005 we had 178. In 2001, we had 1,411 nurses. In October 2005, there were 1,557.

"We will also be re-instating the Nursing Strategy Sponsorship, the Bachelor of Nursing summer employment program and the Health Care Futures Program."

We, however, cannot afford to rest. That is why Mr. Speaker, we will be devoting $2.7 million to physician services, including

recruitment, in 2006-07. We will also be re-instating the Nursing Strategy Sponsorship, the Bachelor of Nursing summer employment program and the Health Care Futures Program. The total cost of these nursing recruitment and retention programs in 2006-07 will be $913,000.

Mr. Speaker, we continue our concentration on the reduction in wait times. That is why we will be devoting $2.2 million for the creation of a fourth orthopaedic surgeon position. When he joins the Queen Elizabeth Hospital this summer, he will alleviate the wait times for hip and knee replacements.

" ...the creation of a fourth orthopaedic surgeon position."

Our new Cancer Treatment Centre is facing greater demands than we had ever anticipated. To ensure Islanders receive the best possible service, Mr. Speaker, we will be spending an additional $275,000 to increase the staff complement of the Oncology Centre. For Prince County residents, Mr. Speaker, Dr. Steven O'Neill has taken on the role of Oncology Associate at the Prince County Hospital and is seeing Oncology patients on Monday and Thursday mornings.

"...we will be spending an additional $275,000 to increase the staff complement of the Oncology Centre."

This year, Government approved the development and implementation of a $14 million Clinical Information System within the 7 acute care hospitals and 4 community health centres. The System is comprised of an integrated suite of acute care information systems.

Capital funding for this project was secured through several partnerships including the Federal Government, the Hospital Foundations and the Province. The Province will assume responsibility for the on-going operational costs of approximately $2.5 million.

Preparation for the project began in September 2005 with the development of a provincial project structure comprised of representatives from each hospital. The project is well underway and will result in the development and implementation of a single

provincial clinical information system within the QEH and the Prince County Hospital in March 2007 with subsequent rollouts to the community hospitals.

Construction of the 3,100 sq ft. annex at the Souris Hospital is completed. With its completion Eastern Kings residents receive an advanced level of primary health services located primarily in one building. These include the family health centre, addictions, community health and public health nursing.

Mr. Speaker, in the Speech from the Throne last Fall, Government made a commitment to begin dialogue with communities and stakeholders in West Prince on a single health-care facility. A project committee has been established and will be inviting all community, staff, and physician stakeholders into the process of determining the level of endorsement for a single hospital. It is expected the Committee will report by May 2006.

On Course to Create More Jobs

Mr. Speaker, in the Fall of 2004, we announced the creation of the Progressive Tax Rebate program which rewards successful companies for their job creation initiatives. I am pleased to report that we have in this Budget $4.6 million for the Department of Development and Technology to honour outstanding tax certificates. In all, 406 jobs were created last year under these programs. There was an investment of $55.7 million by the private sector on 43 separate projects.

" I am pleased to report that we have in this Budget $4.6 million for the Department of Development and Technology to honour outstanding tax certificates."

Additionally, 22 highly-specialized immigrants took advantage of the Specialized Labour Tax Credit program.

This level of activity is reflective of the level of the business community's confidence in this Government and its programs. They recognize our strong plan for economic development.

Mr. Speaker, last year at this time I announced a full percentage

decrease in the tax rate for small business enterprises. The response to that initiative was extremely positive. At the time, I indicated my desire to assist small business by further reducing the rate. I am pleased to announce a five-year plan that will, upon its completion, reduce the small business tax from its current level of 6.5 per cent to 1.0 percent. The Small Business Tax will be reduced by 1.1 per cent effective April 1st in each of the next five years.

"The Small Business Tax will be reduced by 1.1 per cent effective April 1st in each of the next five years."

Mr. Speaker, that will give us the lowest small business tax rate in the country. We trust this initiative will demonstrate to small business that we appreciate their efforts and that we want them to re-invest in their businesses and that we want them to use that re-investment to create jobs and economic activity.

Due to the methodology employed in the tax calculation, businesses over the $300,000 threshold will also benefit from this tax reduction. Mr. Speaker, I am now looking at ways to reduce our general Corporate Tax so that we can tell the world that PEI is open for business and we welcome them to our shores.

The dividend tax credit will also be adjusted to preserve the integration between the corporate and personal income tax systems.

On Course to Welcome More Tourists

Mr. Speaker, the first three months are any indication, we may well be in for a banner tourism year. This would be well-deserved as our Island industry has suffered through turbulent times these past few years. Contributing to significant winter numbers were the Jack Frost Festival, the East Coast Music Awards and the Canadian Seniors Curling Championships. Mr. Speaker, we took advantage of the fact that the East Coast Music Awards were in PEI by providing Tourism PEI with $200,000 to advertise nationally as the show was broadcast live from the Civic Centre.

"...we may well be in for a banner tourism year."

The newly-created Tourism Advisory Council consists of 43 members and is involved in product development, marketing and research. One of its first tasks was to develop a five-year strategic plan. It also endorsed the hiring of Grey Worldwide as the Province's Agency of Record to promote tourism to our key markets. Mr. Speaker, we have provided an additional $180,000 in this Budget to Tourism PEI to assist with the engagement of this firm.

"We will again be augmenting our normal advertising and promotion spending for the Tourism industry next year by $750,000."

We will again be augmenting our normal advertising and promotion spending for the Tourism industry next year by $750,000. This is in addition to the $4.2 million already provided to the Tourism Advisory Council for promotion.

Mr. Speaker, discussions are underway with the Island's tourism industry to re-focus Provincial Visitor Information Centres to new regionally-based Destination Centres. Under a new mandate, Destination Centres will be operated by the local tourism industry with the primary goal of marketing the local area and its attractions.

Thanks to the efforts of our Premier, Mr. Speaker, with the addition of WestJet and Northwest Air, air traffic to Prince Edward Island was up in 2005 by 11 per cent. We welcome these airlines back in 2006 with Northwest adding five weeks to its schedule.

"...air traffic to Prince Edward Island was up in 2005 by 11 per cent."

One of the highlights of the 2006 tourism season will be the "Making the Connection - Legends of Golf" event scheduled for Dundarave and featuring Jack Nicklaus and Tom Watson. The event is scheduled for June 19 and 20.

"One of the highlights of the 2006 tourism season will be the "Making the Connection - Legends of Golf" event scheduled for Dundarave and featuring Jack Nicklaus and Tom Watson."

On Course in Improving Community Infrastructure

Mr. Speaker, community infrastructure projects valued at nearly $200 million are either nearing completion or just beginning.

The Canada-PEI Infrastructure Program is now entering its final year and all funds have been committed. The program approved 81 projects valued at more than $38 million.

The Municipal Rural Infrastructure Fund is entering its first full year with commitments to an initial list of 33 projects approved in August 2005. In all, there are 36 projects in varying states of approval with an estimated value of more than $20 million.

"The Municipal Rural Infrastructure Fund is entering its first full year with commitments to an initial list of 33 projects approved in August 2005."

The Strategic Infrastructure Fund is designated for projects valued at greater than $10 million. To date, three projects have been approved. The Charlottetown Water Treatment Plant Upgrade, including a provincial sludge component, will see the plant expanded and modernized at a total cost of $21.3 million. A similar plant expansion and upgrade is scheduled for Summerside at an estimated cost of $15.9 million. This project also includes a water tower. A five-year sewer and water extension project in Stratford is in its third year and will cost a total of $10.8 million.

The New Deal for Cities and Communities, better known as the Gas Tax Program, is in its first year with $2 million of the first $4.5 million having been disbursed to communities for sewer and water projects.

Mr. Speaker, we are looking forward to finalizing other infrastructure agreements in the near future with a value of $33.4 million.

On Course for the Canada Games

Prince Edward Island will host the 2009 Canada Summer Games. To present our very best face to the rest of the country, we are supporting the Canada Games Host Society and our athletes. The Province has committed a total of $8 million to the Canada Games of which $900,000 has been funded and a further $2.7

"...we are supporting the Canada Games Host Society and our athletes."

million will be paid immediately. To assist our athletes in reaching their full potential, our current annual commitment of $138,000 will be increased to $261,000 in 2006-07 and $403,000 in 2007-08.

On Course to Improve Social Services and Seniors

In July 2005, we added Alzheimer's Drugs to our drug program. This provides assistance to 115 people at an approximate cost of $70,000. Mr. Speaker, we are once again adding to the list of approved drugs. For those citizens with diabetes or cancer, more progressive oral medications are being approved by the National and Atlantic Expert Drug Advisory Committees. Although the medications are available, for many they are too costly to access. Government recognizes it has a role to support those citizens who cannot afford to access new medications. A series of oral diabetic medication will be added to the Exceptional Drug Program, and two new oral cancer medications, Gleevec and Xeloda will also be added. The exceptional diabetes drugs are Actos and Avandia with Amaryl, Diamicron and Prandase added to the diabetes drug program. Through an income-testing formula, this $669,000 investment will augment the $24 million we presently spend through our Provincial Drug Program. These drug additions will be of significant benefit to over 7,000 diabetics and 15-20 cancer patients requiring these medications.

"...we are once again adding to the list of approved drugs."

In November 2005, we signed an agreement-in-principle for Early Learning and Child Care. Through this agreement, we provided $1.36 million in grants to 113 licensed early childhood centres and 280 certified educators.

We invested $450,000 in the Child Care Subsidy Program to increase the support to parents of 630 pre-school age children.

"We invested $450,000 in the Child Care Subsidy Program to increase the support to parents of 630 pre-school age children."

Ensuring our children get the right start is a continuing priority of this Government. For those families in need of parent skill

development or in 'at-risk' situations, we will increase our commitment to Best Start by $237,000 for a total of $957,000.

"...we will increase our commitment to Best Start by $237,000 for a total of $957,000."

The recent Federal announcement of the Choice in Child Care Allowance will put approximately $10 million into the hands of parents. Our Government recognizes that for many families, this will be the needed top-up to support their child care costs. We will ensure the flow-through of this money to parents.

The decision to exempt the Federal monies from the income calculation represents another $428,000 of investment in support of low-income families. This will be further assisted by the $650,000 investment in our Child Care Subsidy Program next year.

Mr. Speaker, we will work closely with the Federal Government to ensure its second investment, the Community Child Care Investment Fund, is supportive of our regulated child care system.

A healthy regulated child care system is an essential element to our social and economic well-being. Over the next year, we look forward to working with the early childhood sector to refine our joint action plan. Immediately, we will be enhancing our support to improve quality programming and language development in child care and family resource centres.

Mr. Speaker, the very heart and soul of a society is represented by its non-governmental organizations. These are the unsung volunteers who are out there everyday making life better for their fellow citizens. In this Budget year, we will provide an additional $139,000 to support their most worthwhile efforts.

"We will also provide an additional $850,000 to those community organizations supporting the residential and vocational needs of the intellectually disabled."

We will also provide an additional $850,000 to those community organizations supporting the residential and vocational needs of the intellectually disabled. Brackley House which houses six special needs children will also receive funding of $637,900.

Mr. Speaker, we will also provide $2 million in support of rate increases at community care facilities and the shelter ceiling for rental accommodations for social services recipients. Effective April 1, 2006, the per diem rate provided to eligible social assistance clients residing in community care facilities will increase to $49 a day from $45. In all, 45 per cent of the 998 community care beds are subsidized by Government. This increase will provide an additional $578,000 for these facilities which support our seniors and mental health community.

"... $2 million in support of rate increases at community care facilities and the shelter ceiling for rental accommodations for social services recipients."

On Course with Environmental Protection

Last Fall, our Government introduced an energy assistance plan to help Islanders deal with higher home heating costs, save energy and reduce greenhouse gas emissions which contribute to climate change. I am pleased to say that almost 2,000 low-income Islanders benefitted from the Residential Energy Assistance Program which consisted of a home energy efficiency upgrade valued at up to $300. In addition, approximately $500,000 was provided under the Alternative Heating Loan Program as incentive for homeowners to diversify their home heating systems; and numerous Islanders have taken advantage of the provincial sales tax exemption on small-scale renewable energy equipment and heating systems such as wood-burning and pellet stoves. These initiatives have provided direct and immediate help to Islanders who need it most and incentive for all Islanders to make long-lasting improvements to reduce oil consumption.

Our Government is building on this success in the year ahead. I am pleased to advise that Government will invest $379,000 in 2006-2007 to extend the Residential Energy Assistance Program. As well, through the Council of Atlantic Premiers, we are participating in a regional campaign - SAVE, A Shared Atlantic Vision for Energy Efficiency - which is designed to help Atlantic Canadians cut energy consumption and greenhouse gas emissions.

"...will invest $379,000 in 2006-2007 to extend the Residential Energy Assistance Program."

Pending environmental approvals, construction of the PEI Energy Corporation's 30-megawatt wind farm in eastern Prince Edward Island is expected to begin in early summer, with the facility being in operation by January 1, 2007. Islanders will have an opportunity to invest in the $55 million development and share in its ownership. This development, in combination with wind energy generated at North Cape, will result in wind supplying 12 per cent of PEI's electricity needs.

"...30-megawatt wind farm in eastern Prince Edward Island is expected to begin in early summer..."

Our Government continues to pursue opportunities to position Prince Edward Island as a leader in renewable energy research and development. There will be significant progress in coming months with work on two major projects: the Wind Energy Institute of Canada and the Prince Edward Island Wind-Hydrogen Village.

This past December, the Department of Environment, Energy and Forestry entered into a 10-year renewable lease agreement with the Environmental Coalition of Prince Edward Island to manage approximately 2,000 acres of public land in the Orwell/Caledonia area. This project, which will demonstrate options for forest management and restoration, represents a significant investment of time and money by the Environmental Coalition to increase the value of a public resource. Once the project moves from development to operations, Government will receive a share of the revenue generated.

Through the Resource Land Acquisition Fund, our Government is contributing $100,000 in 2006-2007 to assist the Nature Conservancy of Canada with the acquisition of Boughton Island. I am pleased to advise that we will contribute a further $200,000 over the following two years toward this $2.2 million land purchase. When the deal closes, the Nature Conservancy will turn ownership of the Island over to the Province, and it will be managed by the Department of Environment, Energy and Forestry for present and future generations to enjoy.

"...our Government is contributing $100,000 in 2006-2007 to assist the Nature Conservancy of Canada with the acquisition of Boughton Island."

On Course to Assist Agriculture, Fisheries and Aquaculture

Mr. Speaker, agriculture had a mixed year. Potato prices were better due to the international agreement of major potato producing areas to limit production. Beef prices improved, however, hog prices remained depressed.

A total of $11 million was provided to support producers facing financial difficulties. Of this, $8.2 million was spent through the Canadian Agriculture Income Stabilization Program. A further $2.8 million represented provincial premium contributions under Production Insurance.

Mr. Speaker, the FoodTrust continues to penetrate new markets and it is becoming increasingly self-reliant as it does so. The FoodTrust has differentiated itself and Island food products to secure premium prices in the marketplace. We recognize that to compete successfully we must differentiate ourselves and develop niche products. This can include everything from potatoes to hog and beef products, if they are to successfully serve producers. So too, we need to expand our involvement in the organic sector of today's marketplace. It is a rapidly-expanding and profitable segment of today's food market.

That is why, Mr. Speaker, I am announcing today an additional $500,000 to be devoted to organic market development, training, risk management and business planning. This will be the first year in a five-year development program. We will be allocating $1 million in each of the successive years. We will support organic clubs to enhance the exchange of information among growers. We will support specialized educational events and provide improved access to environmental programming. We will also help producers to manage risk by providing bridging incentives for new market development and by enhancing the crop insurance program.

"...I am announcing today an additional $500,000 to be devoted to organic market development, training, risk management and business planning."

Mr. Speaker, we will also provide increased human resource support for the organic sector and assist producers in the planning and assessment for value-adding.

A new Federal/Provincial agreement will be launched to continue and expand upon on-farm conservation projects. The new Canadian Agricultural Stewardship Program will include a number of new "best management" practices which will be eligible for financial and technical assistance.

A pilot project will also be undertaken to recognize and reward landowners for the environmental benefits they provide to the rest of society. The Ecological Goods and Services Pilot Program will be implemented on a watershed basis.

Mr. Speaker, low lobster landings in Lobster Fishing Areas 25 and 26A led us to undertake an analysis of incomes of fishermen in those areas. The Department has contributed $200,000 towards the investigation of invasive species under the Aquaculture and Fisheries Research Initiative, and is also participating in a Federal-Provincial task force on invasive species.

"The Department has contributed $200,000 towards the investigation of invasive species under the Aquaculture and Fisheries Research Initiative..."

The Oyster Enhancement Program of the PEI Shellfish Association was provided with assistance from the Department.

Mr. Speaker, discussions are continuing with the Federal Government on a proposed aquaculture framework agreement.

On Course With Programs of the Attorney General

In 2005, there was considerable discussion with respect to closing the gap between the living standards of Aboriginal people and non-Aboriginals. Our Premier attended the First Ministers Meeting on Aboriginal Affairs in British Columbia in November. All governments committed to make improvements with respect to the gaps that exist in housing, educational attainment,

employment rates, economic opportunities and health.

Mr. Speaker, in the last two years the Community and Correctional Services Division has been partnering with Aboriginal communities around a number of shared youth initiatives. We have launched, jointly with the Mi'maq Confederacy, a Career Entry Summer Job Program for post-secondary Aboriginal students. We also partnered with Justice Canada, the Mi'maq Confederacy, the Native Council, Lennox Island and Abegweit First Nations to sponsor two youth leadership and community development seminars. More than 180 youth delegates attended.

"We have launched, jointly with the Mi'maq Confederacy, a Career Entry Summer Job Program for post-secondary Aboriginal students."

For the past three years, we have partnered with Lennox First Nations in offering a remedial and social skills development summer program.

Mr. Speaker, Prince Edward Island is not immune to the ever-increasing level of illicit drugs available on the street. Recognizing the determined efforts of "L" Division of the RCMP to combat illicit drugs, we will be providing additional funding for more human resources. "L" Division will, with this additional funding, develop a street level drug team which will investigate drug activity occurring in communities across the Province.

"..."L" Division will, with this additional funding, develop a street level drug team..."

Conclusion

Mr. Speaker, last year at this time I outlined a comprehensive plan to bring the size and structure of Government in line with what the Province can afford. I said at the time, that it would not be an easy Budget to implement. It wasn't, but with the co-operation, assistance and long hours of many people, we were able to achieve our goals. Because of the 2005-06 Budget and our adherence to our targets, I am able to announce $27 million worth of new investments, new programs and new initiatives tonight.

This Budget represents a significant recognition of the business community in this Province. It presents them with the challenge of investing in their businesses and creating new jobs so that we may grow the population of the Province and present our young people with the choice of staying home surrounded by their families.

"This Budget represents a significant recognition of the business community in this Province."

This Budget provides new funding for the 2009 Canada Games and financial assistance to assist our athletes in gaining the podium.

Once again, education is a key priority of this administration. We have provided increased funding for UPEI and Holland College which will enable them to keep their tuition rates in line. We have also reinstated the Instructional Staffing Model and are committed to provide funding for the implementation of the recommendations of the Task Force on Student Achievement.

"...education is a key priority of this administration."

Mr. Speaker, this Budget, as all before it from this Government, makes a significant investment in health care. We will shorten the wait times for hip and knee replacements with the addition of a fourth orthopaedic surgeon. We will provide additional funding for the dialysis program. We will provide additional personnel in the Radiation Oncology Unit at the Queen Elizabeth Hospital.

"...this Government, makes a significant investment in health care."

We have also, Mr. Speaker, strengthened our commitment to new agricultural opportunities with a five-year $4.5 million program in organic agriculture.

This Budget will contribute more than $7 million in new spending in the Department of Social Services and Seniors. It will provide for new diabetic and cancer drugs. It will provide funding for social assistance and community care rate increases, Brackley House, and vital non-governmental organizations.

"This Budget will contribute more than $7 million in new spending in the Department of Social Services and Seniors."

Mr. Speaker, we will provide Tourism PEI with an additional $930,000 to engage its Agency of Record and to promote the Province through the Tourism Advisory Council.

"... provide Tourism PEI with an additional $930,000..."

This Budget will also provide new money to the RCMP to assist in the fight against illicit drug use.

Finally, Mr. Speaker, this Budget will extend the Residential Energy Assistance Program.

Mr. Speaker, I would like to conclude this address by thanking my colleagues, the staff of Provincial Treasury and the scores of others who assisted in the preparation of this Budget and the sound financial management of the Province.

Thank you.

BUDGET SCHEDULES

1. **Budget Summary**
2. **Revenue Summary**
3. **Expenditure Summary**
4. **Summary of Budgeted Consolidated Surplus (Deficit) of Crown Corporations**
5. **Summary of Depreciation of Tangible Capital Assets**
6. **Where the Money Comes From**
7. **Where the Money Goes**
8. **Cash Requirements**
9. **Summary Comparison - Provincial Tax Rates**
10. **Federal and Provincial Personal Income Tax Rates**

Schedule 1
Budget Summary

	2006-07 Budget Estimate $	2005-06 Forecast $	2005-06 Budget Estimate $
REVENUE			
Provincial Own Sources	678,518,600	670,641,900	654,890,600
Federal Sources	458,740,900	433,525,200	438,187,000
Sinking Fund Earnings	17,300,000	12,650,000	12,650,000
Net Consolidated Surplus (Deficit) of Crown Corporations	1,924,800	4,352,200	(2,100,000)
Total Revenue	**1,156,484,300**	**1,121,169,300**	**1,103,627,600**
EXPENDITURE			
Program Expenditures	1,012,952,200	989,787,600	972,722,300
Interest Charges on Debt	118,276,200	112,521,800	113,970,000
Operating Expenditure	1,131,228,400	1,102,309,400	1,086,692,300
Depreciation Expense	37,755,400	36,856,500	38,942,000
Total Expenditure	**1,168,983,800**	**1,139,165,900**	**1,125,634,300**
CONSOLIDATED DEFICIT	**(12,499,500)**	**(17,996,600)**	**(22,006,700)**

Schedule 2
Revenue Summary

	2006-07 Budget Estimate $	2005-06 Forecast $	2005-06 Budget Estimate $
PROVINCIAL OWN SOURCES			
Taxes	583,248,000	576,790,000	556,934,300
Sales	33,592,200	31,316,500	37,843,500
Fees and Services	32,871,300	32,152,300	30,809,500
Licenses and Permits	17,714,800	18,008,900	17,801,900
Investments	11,092,300	12,374,200	11,501,400
Sub-Total	**678,518,600**	**670,641,900**	**654,890,600**
GOVERNMENT OF CANADA			
Equalization	286,242,700	276,563,000	276,563,000
Canada Health Transfer	90,203,000	85,984,900	85,426,000
Canada Social Transfer	43,396,000	39,393,500	40,662,400
Infrastructure Works Program	8,797,100	3,448,400	6,595,100
Wait Time Reduction	5,139,000	2,688,200	2,688,200
Canada Employment	5,000,000	5,552,000	5,552,000
Minority and Second Language	2,607,500	2,467,100	1,844,000
Young Offenders Services	2,212,100	2,021,000	2,021,000
Housing Programs	1,530,000	1,530,000	1,530,000
Rehabilitation Programs	1,376,000	1,376,000	1,376,000
French Services Agreement	1,255,000	1,231,000	1,240,100
Other	10,982,500	11,270,100	12,689,200
Sub-Total	**458,740,900**	**433,525,200**	**438,187,000**
TOTAL CURRENT REVENUE	**1,137,259,500**	**1,104,167,100**	**1,093,077,600**
Sinking Fund Earnings	17,300,000	12,650,000	12,650,000
Net Consolidated Surplus (Deficit) of Crown Corporations	1,924,800	4,352,200	(2,100,000)
TOTAL OPERATING REVENUE	**1,156,484,300**	**1,121,169,300**	**1,103,627,600**

Schedule 3
Expenditure Summary

	2006-07 Budget Estimate $	2005-06 Forecast $	2005-06 Budget Estimate $
CURRENT			
Agriculture, Fisheries and Aquaculture	27,317,800	28,674,700	28,104,900
Community and Cultural Affairs	32,628,500	31,268,200	31,094,500
Tourism PEI	19,537,900	18,837,400	18,825,500
Development and Technology	4,788,100	4,805,000	5,022,200
Prince Edward Island Business Development Inc.	22,174,100	21,395,200	20,534,600
Employment Development Agency	3,580,200	3,520,600	3,549,600
Education	230,423,500	219,676,200	219,777,300
Island Regulatory and Appeals Commission	1,200,000	1,200,000	1,200,000
Office of the Attorney General	33,612,500	32,639,400	32,920,400
Executive Council	3,030,200	3,072,100	3,423,400
Health	343,850,200	331,176,600	324,605,300
Social Services and Seniors	115,899,200	109,957,700	107,657,700
Legislative Assembly	3,624,200	3,979,500	3,691,600
Provincial Treasury	32,797,600	38,293,600	39,788,200
Council of Atlantic Premiers	123,500	123,500	123,500
General Government	15,570,900	18,129,800	17,094,500
P.E.I. Lending Agency	1,400,500	3,413,000	1,715,900
Technology Asset Management	2,595,800	2,588,000	2,721,800
Environment, Energy and Forestry	12,218,600	12,483,700	12,246,400
P.E.I. Energy Corporation	398,500	399,600	351,300
Transportation and Public Works	81,418,600	79,992,500	79,966,400
Interministerial Women's Secretariat	308,000	307,800	307,800
Auditor General	1,446,800	1,377,900	1,389,600
P.E.I. Public Service Commission	4,543,700	4,607,200	4,682,600
Employee Benefits	22,400,700	21,652,300	21,818,300
Workforce Renewal Program	-	-	(7,750,000)
Depreciation Recorded in Crown Corporations	(3,937,400)	(3,783,900)	(2,141,000)
PROGRAM EXPENDITURE	1,012,952,200	989,787,600	972,722,300
Interest Charges on Debt	118,276,200	112,521,800	113,970,000
OPERATING EXPENDITURE	1,131,228,400	1,102,309,400	1,086,692,300

Schedule 4
Summary of Budgeted Consolidated Surplus (Deficit) of Crown Corporations

	2006-07 Budget Estimate $	2005-06 Forecast $	2005-06 Budget Estimate $
Charlottetown Area Development Corporation[1]	8,600	48,800	4,100
Island Investment Development Inc.	2,000,000	294,400	40,300
Island Waste Management Corporation	(368,100)	(1,338,300)	(1,426,300)
P.E.I. Agriculture Research Investment Fund Inc.	(427,400)	(891,900)	(891,900)
P.E.I. Aquaculture and Fisheries Research Initiative Inc.	(152,000)	(475,600)	(182,000)
Prince Edward Island Agricultural Insurance Corporation	48,500	3,858,600	42,200
Prince Edward Island Energy Corporation	916,000	709,000	651,900
Prince Edward Island Grain Elevators Corporation	24,000	(33,000)	59,000
Prince Edward Island Self-Insurance and Risk Management Fund	139,000	(116,000)	148,500
Prince Edward Island Special Projects Fund	(127,800)	(127,800)	(127,800)
Summerside Regional Development Corporation[1]	(136,000)	2,424,000	(418,000)
NET CONSOLIDATED SURPLUS (DEFICIT) OF CROWN CORPORATIONS	**1,924,800**	**4,352,200**	**(2,100,000)**

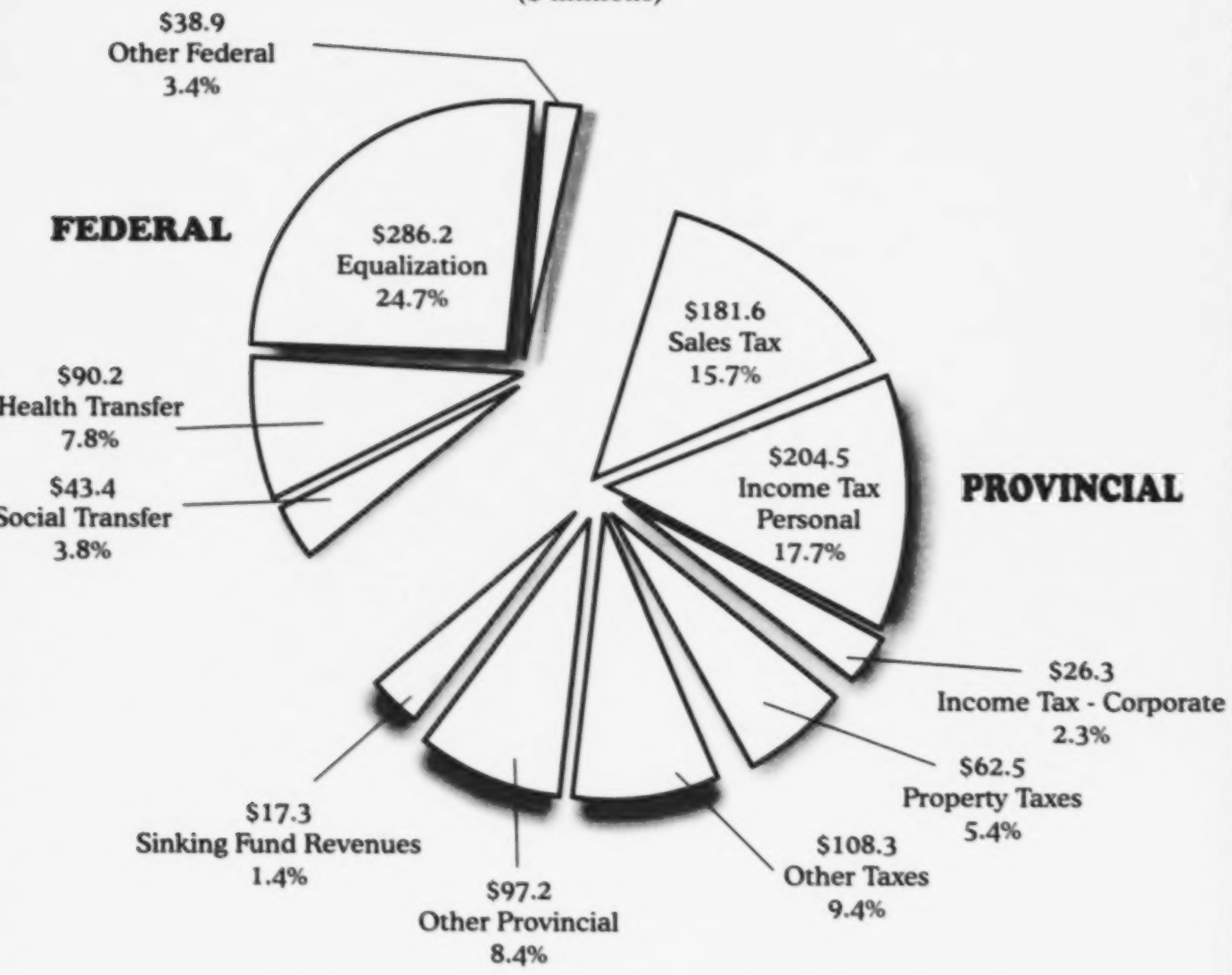
Notes:

[1] Budget Estimates include 85% of the total surplus of the Charlottetown Area Development Corporation, and 75% of the total deficit of the Summerside Regional Development Corporation, to reflect the Province's ownership of these entities.

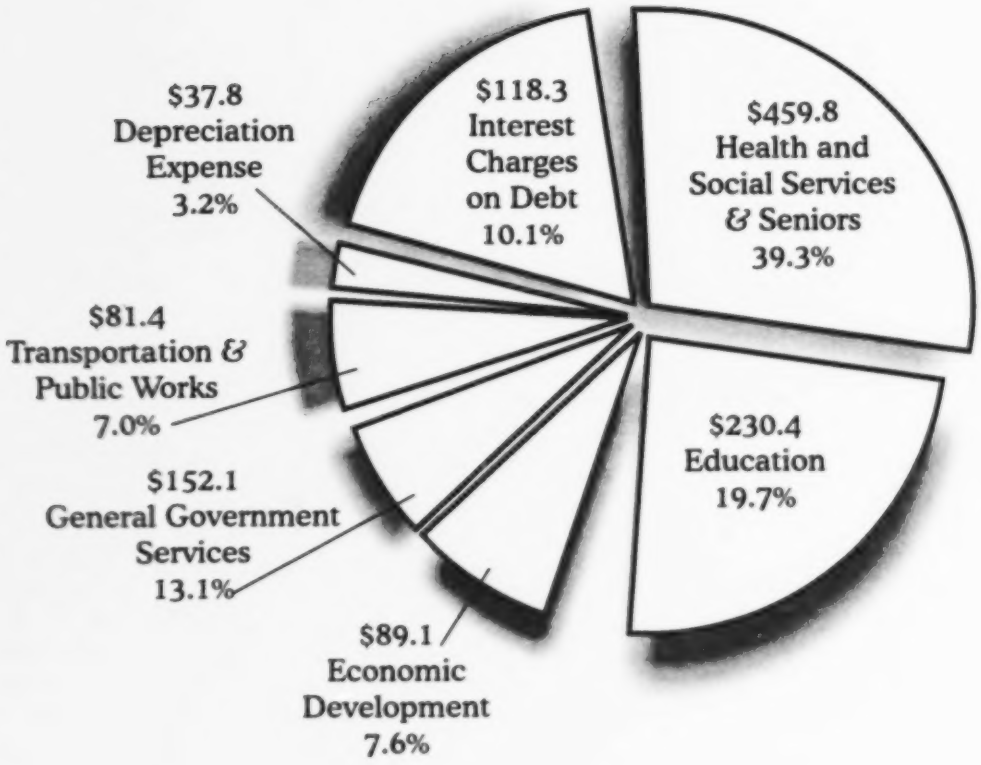
Schedule 5
Summary of Depreciation of Tangible Capital Assets

	2006-07 Budget Estimate $	2005-06 Forecast $	2005-06 Budget Estimate $
DEPRECIATION OF TANGIBLE CAPITAL ASSETS			
General Government:			
Buildings and Improvements	1,635,200	1,587,800	1,910,000
Lease Improvements	305,000	305,000	305,000
Roads and Bridges	16,015,700	16,000,300	17,106,400
Motor Vehicles	1,186,000	1,136,000	1,183,500
Equipment	2,629,400	2,377,800	2,360,800
Other	969,000	968,100	1,037,400
Total General Government	22,740,300	22,375,000	23,903,100
Other Sectors:			
Health Sector	5,410,500	5,349,500	5,451,300
Education Sector	5,645,000	5,325,900	5,851,800
P.E.I. Business Development Inc.	1,730,600	1,730,600	1,584,800
Tourism PEI	556,800	533,300	621,000
P.E.I. Housing Corporation	1,650,000	1,520,000	1,520,000
P.E.I. Museum and Heritage Foundation	10,000	10,000	10,000
Crown Building Corporation	12,200	12,200	-
Total Other Sectors	15,015,100	14,481,500	15,038,900
TOTAL DEPRECIATION EXPENSE	**37,755,400**	**36,856,500**	**38,942,000**

Schedule 6
Where the Money Comes From
2006-2007
($ millions)



Schedule 7
Where the Money Goes
2006-2007
($ millions)



Schedule 8
Cash Requirements

	2006-07 Budget Estimate ('000 $)	2005-06 Forecast ('000 $)	2005-06 Budget Estimate ('000 $)
CASH REQUIREMENTS			
Consolidated Deficit	12,499	17,996	22,007
Acquisition of Tangible Capital Assets	40,960	26,571	26,922
Depreciation	(37,755)	(36,856)	(38,942)
Net Consolidated Surplus (Deficit) of Crown Corporations	1,925	4,352	(2,100)
Net Borrowings on behalf of Crown Corporations	26,620	(14,850)	26,960
Sinking Fund Earnings	17,300	12,650	12,650
Sinking Fund Provisions	16,350	14,160	14,160
Additional Contribution to Sinking Fund	-	48,700	-
Change in Short-Term Payables/Receivables	(2,349)	(18,723)	2,127
Transfer to Pension Fund	16,000	16,000	16,000
Maturing Debt:			
Canada Pension Plan	13,526	8,975	8,975
Refinancing of Canada Pension Plan	(13,526)	(8,975)	(8,975)
Public Debentures	30,186	-	-
Maturities Financed by Sinking Fund	(30,186)	-	-
TOTAL CASH REQUIREMENTS	**91,550**	**70,000**	**79,784**
SOURCES OF CASH			
Short-term Borrowing	91,550	(30,000)	79,784
Long-term Borrowing	-	100,000	-
TOTAL SOURCES OF CASH	**91,550**	**70,000**	**79,784**

Schedule 9

Summary Comparison - Provincial Tax Rates [1]

	Sales Tax (%)	Tobacco Tax ($/pk 25)	Fuel Tax Gasoline (¢/litre)	Fuel Tax Diesel (¢/litre)	Corporate Income Tax General (%)	Corporate Income Tax Small (%)
British Columbia	7.0	4.48	14.5	15.0	12.0	4.5
Alberta	0.0	4.00	9.0	9.0	10.0	3.0
Saskatchewan	7.0	4.38 [3]	15.0	15.0	17.0	5.0
Manitoba	7.0	4.38 [3]	11.5	11.5	14.5	4.5
Ontario	8.0	3.09	14.7	14.3	14.0	5.5
Quebec	7.5	2.58	15.2 [3]	16.2 [3]	16.3/9.9 [4]	8.0
New Brunswick	8.0	2.94 [3]	14.5 [3]	16.9 [3]	13.0	2.0
Nova Scotia	8.0	3.88 [3]	15.5 [3]	15.4 [3]	16.0	5.0
Newfoundland	8.0	4.25 [3]	16.5 [3]	16.5 [3]	14.0	5.0
Prince Edward Island	**10.0**	**4.36**	**11.5 [2]**	**11.5 [2]**	**16.0**	**5.4**
Atlantic Average	8.5	3.86	14.5	15.1	14.8	4.4
National Average	7.1	3.83	13.8	14.1	14.3	4.8

[1] P.E.I. rates are effective as of April 1, 2006, and all other rates are as known at March 24, 2006.

[2] A 10% tax on the wholesale price applies.

[3] Provincial sales tax applies.

[4] Quebec has two general corporate income tax rates, the higher of which applies to non-active business income.

Schedule 10
Federal and Provincial Personal Income Tax Rates, Thresholds and Surtaxes - 2006 [1]

	Tax Rates (%)	Thresholds	Surtax Rates (%)	Surtax Thresholds
Federal	15	$9,039.01 – 36,378		
	22	36,378.01 – 72,756		
	26	72,756.01 – 118,285		
	29	118,285.01 and over		
Newfoundland	10.57	$7,410.01 – 29,590	9	$7,032
	16.16	29,590.01 – 59,180		
	18.02	59,180.01 and over		
Prince Edward Island	**9.8**	**$7,412.01 – 30,754**	**10**	**$5,200**
	13.8	**30,754.01 – 61,509**		
	16.7	**61,509.01 and over**		
Nova Scotia	8.79	$7,231.01 – 29,590	10	$10,000
	14.95	29,590.01 – 59,180		
	16.67	59,180.01 - 93,000		
	17.50	93,000.01 and over		
New Brunswick	9.68	$8,061.01 – 33,450		
	14.82	33,450.01 – 66,902		
	16.52	66,902.01 - 108,768		
	17.84	108,768.01 and over		
Ontario	6.05	$8,377.01 – 34,758	20	$3,929
	9.15	34,758.01 – 69,517	36	$4,957
	11.16	69,517.01 and over		
Manitoba	10.9	$7,734.01 – 30,544		
	13.5	30,544.01 – 65,000		
	17.4	65,000.01 and over		
Saskatchewan	11	$8,589.01 – 37,579		
	13	37,579.01 – 107,367		
	15	107,367.01 and over		
Alberta	10	$14,899.01 and over		
British Columbia	6.05	$8,858.01 – 33,755		
	9.15	33,755.01 – 67,511		
	11.70	67,511.01 – 77,511		
	13.70	77,511.01 – 94,121		
	14.70	94,121.01 and over		

[1] Rates and thresholds are effective January 1, 2006 (as known at March 23, 2006).

BUDGET PAPER A:

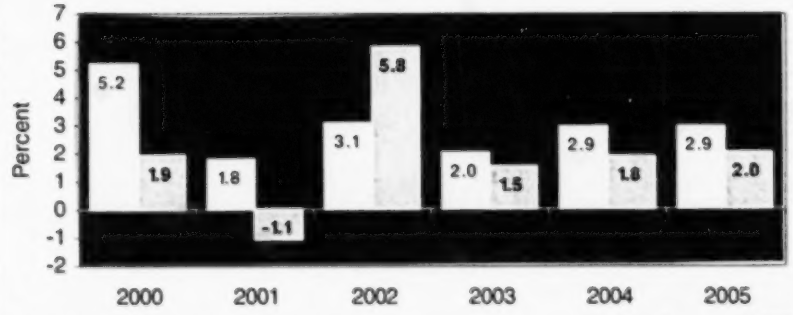
BACKGROUND NOTES ON THE ECONOMY

BUDGET PAPER A:
BACKGROUND NOTES ON THE ECONOMY

Introduction

The Prince Edward Island economy in 2005 posted its fourth consecutive year of economic gains. Provincial Treasury estimates that the P.E.I. economy in 2005 expanded in the order of 2.0 per cent, in constant dollar terms. This compares to 1.8 per cent growth in 2004 and 1.5 per cent in 2003, according to official estimates by Statistics Canada. Nationally, economic growth was 2.9 per cent in 2005, the same rate of growth experienced in 2004. Diagram 1 compares real GDP growth of P.E.I. and Canada from 2000 to 2005.

Diagram 1
REAL GDP GROWTH, 2000-2005
CANADA AND P.E.I.



Sources: Statistics Canada; P.E.I. Provincial Treasury

The P.E.I. economic performance in 2005 was greatly supported by a robust non-residential construction sector. Investment in non-residential construction increased by 24.1 per cent from 2004. Other economic highlights in 2005 include strong employment gains, a rebound in fish processing activity, and an improved retail sector.

National and International Economic Review

Growth of the national economy in 2005 was supported by solid gains in consumer spending on goods and services, and strong non-residential investment, particularly in the area of machinery and equipment investment. The volume of exports also increased, by 2.3 per cent. Partially offsetting was strong import growth, of 7.0 per cent in real terms; a weak manufacturing sector, attributed to a strong Canadian dollar; and a decline in residential construction.

Notwithstanding a strong economic performance in 2005, national employment growth was relatively modest. Employment totaled 16.2 million in 2005, an increase of 1.4 per cent from 2004. That year, employment rose by 1.8 per cent. Most of the employment gains in 2005 occurred in

education, trade, and business services sectors. The national unemployment rate averaged 6.8 per cent in 2005. Towards the latter part of that year, the unemployment rate fell to the lowest level in over thirty years. The rate of unemployment averaged 7.2 per cent in 2004.

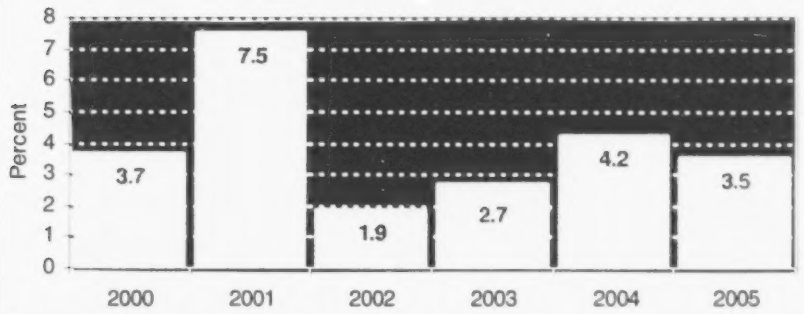
According to the Conference Board of Canada, Alberta experienced the highest rate of economic expansion in the country in 2005, with estimated growth of 4.9 per cent. Alberta also boasted the highest rate of growth in housing construction, at 12.6 per cent for the year; in manufacturing shipments, at 12 per cent; in retail sales, at 12.4 per cent; and in non-residential investment, at 27.8 per cent. In this category, P.E.I. ranked third nationally. British Columbia ranked first in terms of employment growth, at 3.3 per cent, followed by P.E.I. in second place with 1.9 per cent. P.E.I. led the way in terms of export growth, at 21.4 per cent.

With respect to the global stage, the International Monetary Fund (IMF) states that the world economy performed well over the last number of years in light of recent shocks, including higher oil prices. The global economy is estimated to have expanded by 4.3 per cent in 2005, a reduced pace from 2004 growth of 5.1%. For 2006, the IMF projects growth to continue at about the same pace as in 2005, noting U.S. and emerging economies in Asia as the "great engines of growth".

The IMF maintains that though there are imminent risks to the global economic performance, they are manageable. This providing that major players act to contain some risks and problems, particularly relating to global imbalances. Most visible is a very large current account deficit of the balance of payments of the U.S. and a correspondingly large surplus in the external accounts of other countries, particularly Japan and countries in emerging Asia, and oil exporting countries. Other major risk factors identified by the IMF include further increases in oil prices and an avian flu pandemic.

The U.S. economy expanded strongly in 2005, but at a reduced pace compared to 2004 as illustrated by Diagram 2. According to the U.S. Bureau of Economic Analysis, growth of the U.S. economy was 3.5 per cent in 2005 and compares to a 4.2 per cent expansion in 2004. The economy experienced a slowdown in the fourth quarter of 2005 largely due to a deceleration of personal spending on consumer goods and services, increased imports, and reduced Federal Government spending. For 2005 overall, consumer spending was

Diagram 2
REAL GDP GROWTH, 2000-2005
UNITED STATES OF AMERICA



Source: U.S. Bureau of Economic Analysis

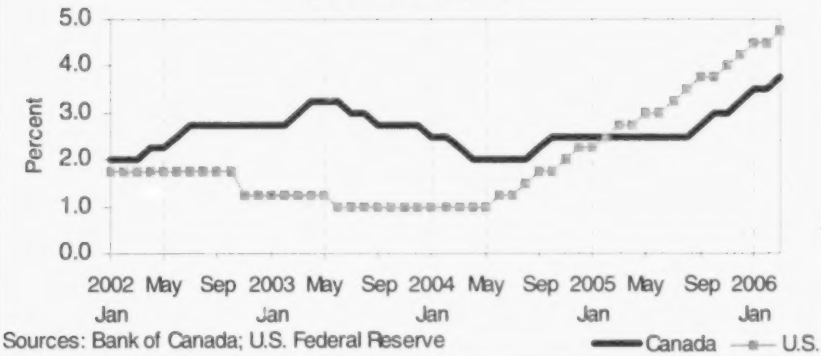
strong, private investment in equipment and software increased, and growth in government spending resulted in a solid economic performance. Partially offsetting was strong growth in imports.

The U.S. fiscal situation improved in 2005, however the national deficit remains at a high level. Based on data from the U.S. Congressional Budget Office (CBO), the federal deficit in 2005 totaled $318 billion, down from $413 billion reported in 2004. CBO projections show that the federal deficit is expected to increase to $336 billion in 2006.

The labour market situation in the U.S. continues to improve, but at a modest pace. Employment increased by 1.5 per cent in 2005, up from 1.1 per cent in 2004. Positive employment gains in 2005 reduced the U.S. unemployment rate to 5.1 per cent, the lowest level since 2001. The rate of unemployment in 2004 was 5.5 per cent.

Both Canada and the U.S. central banking authorities have continued on the path of removing monetary stimulus from their respective economies, although the U.S. has adopted a more aggressive approach as can be observed in Diagram 3. The Federal Open Market Committee increased its key policy rate by 25 basis points in each of its last 14 rate announcements, beginning in June 2004. The last announcement was on March 28, 2006, when the Committee increased the rate to 4.75 per cent, where it currently stands. By contrast to the U.S. experience, the Bank of Canada adopted a seemingly more relaxed approach to its monetary policy over the April 2004 to August 2005 period. Since September 2005 however, Canada's central bank has followed the U.S. trend of policy rate increases. On March 7, 2006, the Bank of Canada increased its policy rate from 3.5 per cent to 3.75 per cent, where it currently stands.

Diagram 3
KEY INTEREST RATES, 2002-2006
CANADA AND U.S.A.

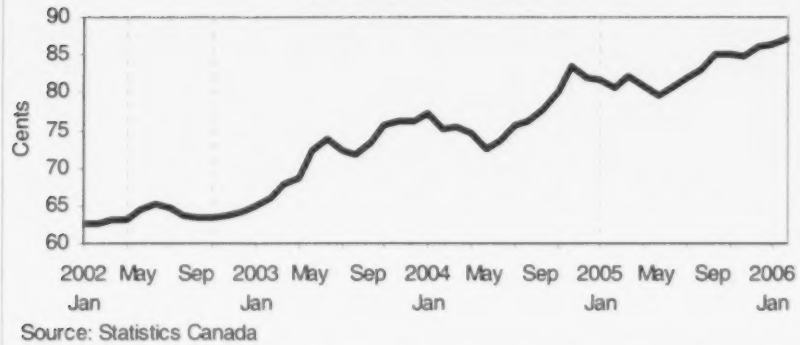


Sources: Bank of Canada; U.S. Federal Reserve

The Canadian dollar continued to appreciate against the U.S. currency in 2005. Diagram 4 shows the average monthly trend in the Canadian dollar relative to the U.S. dollar from 2002 to 2006. Compared to the January 2002 low point in that period, when the Canadian dollar against the U.S. currency averaged 62.49 cents, the Canadian dollar had appreciated by nearly 40 per cent as at February 2006. That month, the Canadian currency averaged 87.04 cents, the highest level since December 1991.

In 2005, the Canadian dollar appreciated by 7.3 per cent, at about the same rate experienced in 2004

Diagram 4
EXCHANGE RATES: $ U.S. PER $ CDN
Jan 2002 - Feb 2006



Source: Statistics Canada

The Prince Edward Island Economy

Gross Domestic Product

Growth of the Prince Edward Island economy in 2005, estimated at 2.0 per cent, was a slight improvement from 2004 growth of 1.8 per cent. The provincial economy in 2005 benefitted from a robust non-residential construction sector, positive employment gains, and a strong manufacturing performance. The retail sector also improved.

For 2006, Provincial Treasury projects an improved rate of growth for the P.E.I. economy, of 2.2 per cent. This compares to an average of 2.1 per cent based on major bank forecasts. Continued strength in non-residential investment and manufacturing activity are identified as major growth factors for 2006, while a further softening of the housing construction sector will partially offset growth.

A.1 Highlights of the Provincial Economy 2005

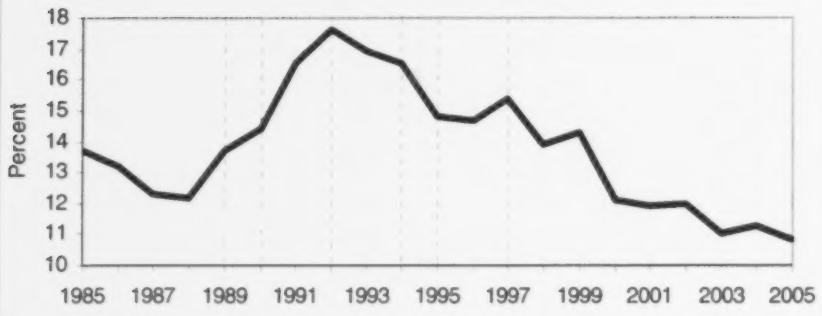
- Investment in non-residential building construction on P.E.I. valued $116.8 million in 2005, an increase of 24.1 per cent, the third highest growth in the country.
- P.E.I. experienced the highest rate of merchandise export growth in Canada, at 21.4 per cent.
- Employment growth on P.E.I. was highest in Atlantic Canada, and second highest in the country, at 1.9 per cent. The unemployment rate on P.E.I. fell to 10.8 per cent in 2005, the lowest annual rate since 1980.
- Labour income in the province expanded by 4.4 per cent.
- Farm cash receipts on P.E.I. bounced back to more normal levels in 2005, at $363.7 million.
- Total manufacturing shipments in 2005 reached a record $1,486 million, an increase of 5.1 per cent over 2004. The value of fish processing on P.E.I. rose by 22.6 per cent in 2005.
- The value of retail spending on P.E.I., at $1,427.9 million in 2005, rose by 3.1 per cent from 2004. The volume of new motor vehicle sales on P.E.I. expanded by 3.2 per cent.

Employment

Prince Edward Island experienced the second highest rate of employment growth in the country in 2005, at 1.9 per cent, behind British Columbia. This compares to growth of 1.2 per cent in 2004 and 2.2 per cent in 2003. Based on official estimates by Statistics Canada, employment on P.E.I. totaled 68,200 in 2005, an increase of 1,300 over 2004. This increase comprised 900 full-time positions and 400 part-time positions.

The majority of employment growth in 2005 occurred in the services-producing sector, which increased by 800. Major employment gains were in accommodation and food services and in management and administration services, while employment in retail and public administration declined. With respect to the goods-producing sectors, strong employment gains occurred in the construction and manufacturing industries, while employment fell in agriculture and other primary industries.

Diagram 5
UNEMPLOYMENT RATE, 1985-2005
PRINCE EDWARD ISLAND



Source: Statistics Canada

Improved employment conditions in 2005 resulted in a lower unemployment rate for the province. The unemployment rate for P.E.I. in 2005 fell to 10.8 per cent on average, which represents a twenty-five year low for the province. In 2004, the jobless rate averaged 11.3 per cent. Diagram 5 illustrates the downward trend in the Province's's unemployment rate since 1992.

Personal Income

Provincial Treasury estimates that personal income on Prince Edward Island valued $3,615 million in 2005, an increase of 4.3 per cent relative to 2004. This was largely attributed to increased labour income, the largest component of personal income. Increased earnings from wages and salaries in Federal Government public administration, professional and business services industries, and in health care and social assistance were the main contributors to labour income growth in 2005.

Increased transfers from government, in the form of higher employment insurance benefits and old age security payments, and growth in unincorporated business income contributed to personal income growth in 2005. Farm incomes that year are estimated to have increased as well given improved commodity prices for potatoes and beef.

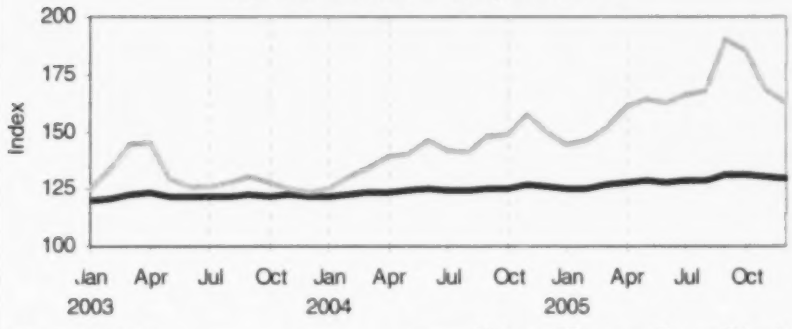
Consumer Prices

According to Statistics Canada, consumer price inflation on Prince Edward Island was 3.2 per cent in 2005, and compares to 2.1 per cent in 2004 and 3.6 per cent in 2003. Nationally, inflation was 2.2 per cent in 2005. For P.E.I., the major inflationary factors that year, by order of importance, were increased prices for fuel oil, gasoline and owned accommodation. The latter component, which comprises the largest weight of the consumer price index for P.E.I., include costs associated with mortgage interest, homeowners' insurance premiums, and maintenance and repairs. Prices relating

to owned accommodation increased by 2.8 per cent in 2005.

Energy prices increased substantially in 2005 as can be observed in Diagram 6. The energy price index rose by 15.7 per cent that year, which builds on growth of 8.7 per cent in 2004 and 11.1 per cent in 2003. Fuel oil and other fuel increased by 30 per cent and gasoline prices rose by 15 per cent in 2005. As illustrated, energy prices on P.E.I. spiked up briefly in September 2005. Gasoline prices that month rose by 20 per cent from the previous month. This was the result of two major gas rate increases announced in September by the Island Regulatory and Appeals Commission, as hurricane-related disruptions to oil production and refining activity along the U.S. Gulf Coast drove up gasoline and heating oil prices.

Diagram 6
ALL-ITEMS CPI AND ENERGY PRICE INDEX
PRINCE EDWARD ISLAND, 2003-2005



Source: Statistics

Population

The Prince Edward Island population reached 138,113 on July 1, 2005, an increase of 252 persons, or 0.2 per cent from 2004. This was the largest increase in the Atlantic region, but well below the national average of 0.9 per cent. Natural increase (i.e. total births minus total deaths) contributed 40 per cent to this change, while 60 per cent was attributed to net migration.

Preliminary data show that between July 1, 2004 and June 30, 2005, three hundred-and-twelve immigrants chose Prince Edward Island as their new home. This was the largest number of international migration since 1979.

During that same period, the majority of Canadian residents moving to Prince Edward Island came from Ontario (+908), Nova Scotia (+495), New Brunswick (+388), Alberta (+308) and Quebec (+298). At the same time, the provinces that attracted the largest numbers of Islanders were Ontario (-818), Alberta (-572), Nova Scotia (-555) and New Brunswick (-530).

The aging of the Island population is illustrated by the fact that the median age has risen from 24.8 years in 1971 to 39.3 years in 2005. Furthermore, while 11 per cent of the population was 65 years and older in 1971, this proportion had risen to 14.1 per cent in 2005.

Detailed Industry Analysis

Agriculture

Market conditions in the agriculture industry on Prince Edward Island improved in 2005, and cash receipts that year returned to more normal levels. Table 1 shows the annual farm cash receipts for P.E.I. from 2001 to 2005. Total receipts rose from $345.6 million in 2004 to $363.7 million in 2005, an increase of $18.1 million, or 5.2 per cent. The overall increase in receipts in 2005 was driven largely by higher potato receipts and government support payments. Direct payments to farmers increased by 20.6 per cent in 2005. A major offset to growth in farm cash receipts was a decline in hog receipts.

Table 1
FARM CASH RECEIPTS, P.E.I.
($ Millions)

Year	Potatoes	Other	Total Crops	Cattle	Hogs	Dairy	Other	Total Livestock	Direct Payments	**Total Receipts**
2001	123.9	27.5	151.4	27.7	33.5	52.5	12.6	126.3	58.5	**336.2**
2002	189.9	30.5	220.4	25.3	27.7	53.3	12.8	119.2	24.4	**364.0**
2003	185.3	33.7	219.0	17.7	26.5	55.0	13.4	112.7	22.8	**354.5**
2004	151.1	32.6	183.7	14.4	33.9	60.0	14.6	122.6	39.3	**345.6**
2005	161.7	33.6	195.3	18.2	26.6	61.6	14.5	121.0	47.4	**363.7**

Source: Statistics Canada

Market prices for potatoes improved in 2005 following several years of low prices. Nationally, potato production declined that year due to a Canada-wide reduction in seeded acreage. A decrease in processing contracts and poor prices in 2004 resulted in the reduction, according to Statistics Canada. For P.E.I., farmers reduced their seeded acreage in 2005 to 95,500 acres, which is a decrease of 10 per cent from 2004.

Total livestock receipts fell slightly in 2005, by 1.3 per cent. This was the result of a 21.5 percent decline in hog receipts that year. According to Statistics Canada, hog prices fell by nearly 13 per cent in 2005.

Cattle receipts on P.E.I. increased strongly in 2005, by 26.4 per cent. Market conditions for beef improved that year as ramifications of the B.S.E. crisis dissipated. In the Summer 2005, the U.S. lifted its ban on live cattle imports from Canada, and more recently, Japan announced in December that it would relax its Canadian beef import restrictions. According to Statistics Canada, cattle prices in 2005 increased by 16.3 per cent which offset a 16.6 per cent decline experienced in 2004.
Dairy receipts in 2005, at $61.6 million, increased by 3.2 per cent relative to 2004.

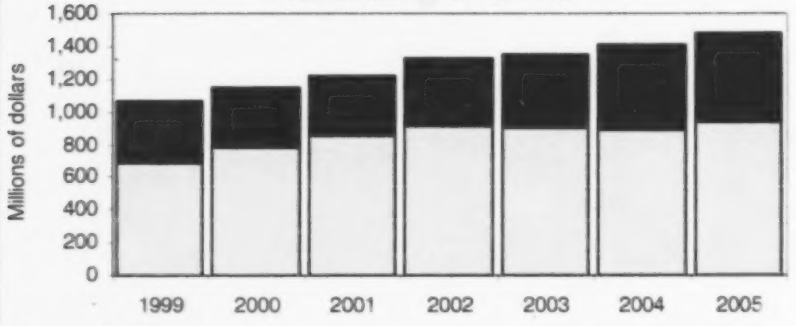
Manufacturing

The value of manufacturing shipments on Prince Edward Island rose strongly in 2005. Total shipments were valued at $1,486 million that year, an increase of $71.8 million, or 5.1 per cent from 2004. Growth was driven mainly by fish processing and chemical manufacturing activity on P.E.I..

Total food manufacturing valued $931.5 million in 2005, an increase of 5.0 per cent compared to 2004. Shipments of processed fish products, valued at $304.3 million in 2005, increased by 22.6 per cent from 2004. By contrast, the value of processed potato and other food products, at $627.2 million, declined by 1.5 per cent.

Shipments of non-food manufactured products totaled $554.5 million in 2005, an increase of $27.1 million, or 5.1 per cent from 2004. The single largest contributor to this growth was chemical manufacturing, which increased by $14.7 million, or 15.6 per cent in 2005. Partially offsetting was a $2.6 million reduction in shipments of manufactured transportation and equipment products.

Diagram 7
ANNUAL MANUFACTURING SHIPMENTS, 1999-2005
PRINCE EDWARD ISLAND



Source: Statistics Canada

As illustrated by Diagram 7, growth in the value of total manufacturing shipments since 2002 was largely attributed to increased manufacturing of non-food products.

Fishing

Lobster, mussels and snow crab comprise the top three species, by value, of the Prince Edward Island fishery. The lobster fishery experienced a reduction in landings in 2005. There were a total of 18.5 million pounds of lobster landed that year, according to the P.E.I. Department of Agriculture, Fisheries and Aquaculture, which is a decline of 1.4 million pounds, or 7.0 per cent compared to 2004. The Department acknowledged poor weather conditions as a factor resulting in reduced lobster landings in 2005. The Spring lobster fishery landed 16.1 million pounds that year, which is a decline of 10 per cent from 2004. By contrast, Fall lobster landings increased, by 5.9 per cent, although there were significant port to port variances. Notwithstanding the overall decrease in lobster landings in 2005, prices improved. The landed value of lobster in 2005 was estimated at $103 million, an increase of 3.1 per cent over 2004.

Snow crab landings increased by 2 million pounds in 2005 to total 7.6 million pounds. This was due to increased quota. The landed value of snow crab is estimated to have declined in 2005 due to adverse market conditions in the industry. Mussel landings were in the order of 37 million pounds in 2005, about the same as the year prior. The landed value of mussels in 2005, at $22.0 million, was also unchanged.

International Export Performance

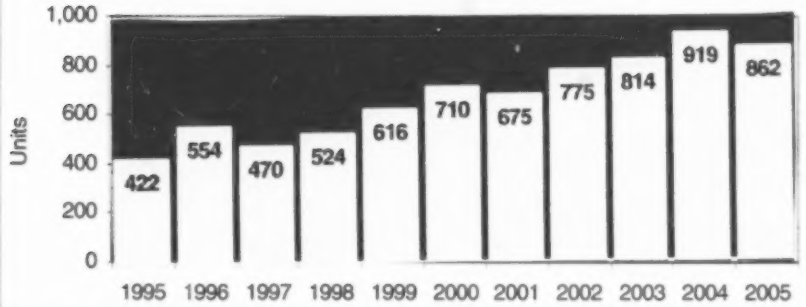
According to Industry Canada, Prince Edward Island exported a total of $809.9 million of merchandise goods to international destinations in 2005, an increase of $143 million, or 21.4 per cent relative to 2004. This represents the highest rate of growth in the country. The single largest growth factor in 2005 was in exports of processed fish products, which bounced back strongly that year following two years of decline. Processed fish exports valued $165.6 million in 2005, an increase of $31.6 million, or 23.6 per cent from 2004. This compares to a cumulative decline of 31.2 per cent experienced in 2003 and 2004. Exports of machinery and equipment, aerospace products and parts, and fresh potatoes also contributed to overall growth in 2005. Partially offsetting was a reduction in the value of frozen food (i.e. processed potatoes) and fresh fish exports.

Construction and Investment

Residential construction on Prince Edward Island declined in 2005, following a strong performance in the prior year. According to Statistics Canada, there were 862 housing starts recorded in 2005, a decrease from 919 units in 2004. That year's level was the highest since 1988. Notwithstanding the reduced level of housing starts in 2005, residential construction remains strong by historical standards, as illustrated by Diagram 8.

Non-residential construction activity was a key driver in the economy in 2005. According to Statistics Canada, investment in non-residential building construction totaled $116.8 million that year, an increase of 24.1 per cent relative to 2004. This compares to the national average growth rate of 8.9 per cent. For 2005, P.E.I. had the third highest rate of non-residential investment growth in

Diagram 8
TOTAL HOUSING STARTS, 1995-2005
PRINCE EDWARD ISLAND



Source: Statistics Canada

the country, behind Alberta and British Columbia.

Major non-residential construction projects on P.E.I. in 2005 included the new federal building, the Maritime Electric generator plant, and various projects on the University of P.E.I. campus, such as the National Research Centre, the Atlantic Veterinary College expansion, and a new student residence.

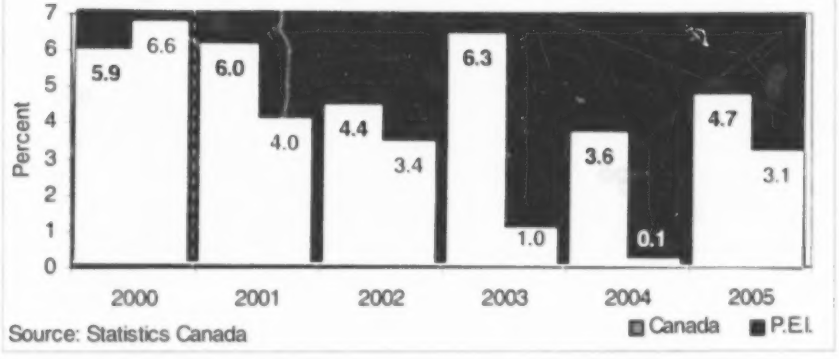
According to Statistics Canada's *Private and Public Investment in Canada, Intentions 2006*, total non-residential capital expenditure intentions for 2006 are $788.6 million, an increase of 2.6 per cent compared to 2005. The value of total non-residential capital expenditure intentions in 2006 is comprised of $485.8 million in capital construction expenditures, which is 5.2 per cent higher relative to 2005, and $302.9 million in capital machinery expenditures, which is 1.2 per cent lower compared to 2005.

Retail Trade

Seasonally adjusted retail sales on Prince Edward Island valued $1,427.9 million in 2005, which represents an increase of $43.2 million, or 3.1 per cent from 2004. Diagram 9 compares the relative growth rates of retail sales for P.E.I. and Canada from 2000 to 2005. As can be observed, retail sales growth on P.E.I. rebounded in 2005 following weak performances in 2003 and 2004. Sales in those years were adversely impacted by reduced new motor vehicle sales.

Growth in the value of retail sales in 2005 was driven by increased spending at gasoline stations, supermarkets, and at specialized building material and garden stores. Retail spending at hardware stores and used car dealerships declined that year.

Diagram 9
RETAIL SALES GROWTH, 2000-2005
CANADA AND P.E.I.



Source: Statistics Canada

Increased sales of new motor vehicles on P.E.I. also contributed to a stronger retail sector in 2005. A total of 4,847 passenger and commercial vehicles were sold on P.E.I. in 2005, which is an increase of 151 units, or 3.2 per cent over 2004. By value, new motor vehicles sales totaled $126.4 million in 2005, an increase of 1.2 per cent.

Tourism

The 2005 tourism season was on par with 2004, according to the P.E.I. Tourism Advisory Council (TAC). Based on transportation data published by TAC, tourist traffic to P.E.I. increased slightly in 2005. Both Confederation Bridge and air traffic increased in terms of tourist volumes, by 1.0 per cent and 11.0 per cent respectively. Ferry traffic however, declined in 2005, by 5.0 per cent.

The strong showing in tourism-related air traffic was supported by the introduction of two new seasonal flights in 2005: Northwest Airlines, with a direct daily flight departing from Detroit to Charlottetown (commenced July 1, 2005), and WestJet, with a direct daily flight service from Toronto to Charlottetown (commenced June 28).

With respect to other tourism indicators, golf rounds played at provincial golf courses increased by 3 per cent in 2005, the number of cruise ship visitors rose by 4 per cent, and provincial park campsite rentals increased by 5 per cent compared to the previous year. On the negative side, tourist visitation at tourist information centres declined by 13 per cent in 2005, visitation to the Island's national park fell by 13 per cent, and tourist visitation to historic sites declined by 6 per cent.

Summary and Outlook for 2005

Growth of the Prince Edward Island economy in 2005 was slightly higher than the 2005 Provincial Budget forecast of 1.8 per cent. The Canadian economy recorded solid gains in 2005, in light of a further currency appreciation and higher energy prices. For P.E.I., growth that year was highlighted by healthy employment gains, a thriving commercial construction sector, and a solid manufacturing performance. Limiting growth were reduced production levels in various goods-producing sectors, particularly in residential construction. The Department of the Provincial Treasury estimates that Gross Domestic Product on P.E.I. valued $4,237 million in 2005, which is growth of 2.0 per cent in constant dollar terms.

The outlook for the P.E.I. economy remains positive, supported by continued strength in the goods-producing sector. Provincial Treasury projects real G.D.P. growth of 2.2 per cent for the province for 2006, a slight improvement from 2005. With respect to the national economic outlook, the Conference Board of Canada projects growth of 2.9 per cent for 2006, supported by strong domestic demand. Risks to both the provincial and national outlooks include the high value of the Canadian dollar, high oil prices and rising interest rates.

SUMMARY STATISTICS
PRINCE EDWARD ISLAND ECONOMY

	1998	1999	2000	2001	2002	2003	2004	2005
Population on 1 July (thousands) *	135.8	136.3	136.5	136.7	136.9	137.3	137.9	138.1
Personal Income per capita ($) *	20,007	20,949	22,382	22,679	23,759	24,248	25,109	26,196[1]
As % of Canadian Personal Income	*80.6*	*81.3*	*81.7*	*80.3*	*82.9*	*82.6*	*82.8*	83.0[1]
Employment (in '000s) *	59.6	60.2	62.7	63.6	64.7	66.1	66.9	68.2
Unemployment rate - P.E.I. (%) *	13.9	14.3	12.1	11.9	12.0	11.0	11.3	10.8
Unemployment Rate - Canada	*8.3*	*7.6*	*6.8*	*7.2*	*7.7*	*7.6*	*7.2*	*6.8*
CPI - annual change P.E.I. (%)	-0.5	1.2	4.1	2.6	2.7	3.6	2.1	3.2
CPI - annual change Canada (%)	*0.9*	*1.7*	*2.7*	*2.6*	*2.2*	*2.8*	*1.9*	*2.2*
Retail Trade ($ millions) *	1,087.9	1,194.7	1,273.9	1,324.6	1,369.0	1,382.7	1,384.7	1,427.9
New Motor Vehicle Sales (units)*	4,556	4,802	4,902	4,635	4,996	4,731	4,696	4,847
Farm Cash Receipts ($ millions) *	324.5	349.6	323.1	336.2	364.0	354.5	345.6	363.7
Potato Receipts ($ millions) *	173.3	192.2	154.5	123.9	189.9	185.3	151.1	161.7
Lobster Landings ($ millions) *	80.6	88.9	87.8	104.8	105.4	108.3	100.1	103.2
Lobster Landings (lbs - millions)	*18.9*	*18.5*	*19.1*	*19.4*	*19.9*	*20.0*	*19.9*	*18.5*
Housing Starts (units)	524	616	710	675	775	814	919	862
Investment ($ millions) *	494.3	549.0	596.4	616.4	639.1	677.0	723.6	768.3
Manufact. Shipments ($ millions)	937.6	1,063.4	1,150.6	1,222.0	1,327.1	1,356.1	1,414.2	1,486.0
Tourist Visitations (thousands) [2]*	1,240	1,168	1,087	1,104	1,068	1,038	913	n.a
International Exports of Goods ($ millions)	466.0	566.5	682.9	666.4	683.0	637.6	644.4	772.6
GDP at market prices ($ millions) *	2,981	3,159	3,366	3,431	3,715	3,845	4,023	4,237[1]

n.a.: data not available

* revised data

Note 1: Provincial Treasury estimate

Note 2: Visitations do not include business and motorcoach travel.

Sources: Statistics Canada; C.M.H.C.; P.E.I. Department of Agriculture, Fisheries and Aquaculture; Tourism PEI

BUDGET PAPER B:

FEDERAL FISCAL ISSUES

BUDGET PAPER B:
FEDERAL FISCAL ISSUES

The fiscal relationship between the federal and provincial level of government is critically important for the financing of public services on Prince Edward Island. In total federal transfers to Prince Edward Island are budgeted to be $458.7 million or 39.7 per cent of total revenues in 2006/07. Equalization and transfers for health and social programs make up the bulk of federal transfers.

This budget paper provides a summary of the recent events affecting federal transfers.

Addressing the Fiscal Imbalance

Recent discussions on federal provincial fiscal relations have centred on the balance of revenues and expenditure responsibilities between the federal and provincial governments (vertical balance) and to level the fiscal disparities among provinces (horizontal balance). These fiscal imbalances make it increasingly difficult for provinces and territories to maintain and improve public services such as health care, education and other social programs without going into debt or resorting to even higher levels of taxation.

Discussions on the fiscal arrangements have been ongoing since Confederation and the mechanisms to deal with the imbalances have evolved to reflect the needs of a modern decentralized federation. Since the mid-1990's provinces have been increasingly concerned about the growing fiscal imbalances between the Federal Government with large fiscal surpluses while provinces struggle with deficits and the increasing disparities among provinces. Provinces focussed their attention to improving federal transfers for health and social programs and strengthening the Equalization program.

The Equalization program is the main tool to directly promote horizontal fiscal balance among provinces by raising the fiscal capacities of receiving provinces to a standard amount. The Canada Health Transfer (CHT) and the Canada Social Transfer (CST) are the principle tools used to reduce the vertical fiscal imbalance between the federal and provincial levels of government.

Major changes to the largest transfers for health care and equalization were announced in the fall of 2004 when First Ministers agreed to new funding arrangements for health. This agreement largely restored the federal funding contribution that was reduced during the 1990's. To complement the increased federal funding for health care the Federal Government announced a new framework for Equalization. The new framework halted the decline in total program entitlements and provided certainty to receiving provinces on the amount of Equalization revenue they would receive in the 2004/05 and 2005/06 fiscal years.

Since the fall of 2004 both the Federal Government and the provincial-territorial governments have established panels of experts to study and make recommendations to improve fiscal arrangements in Canada for the long-term. The federal Expert Panel on Equalization that was established as part of the new framework for Equalization was tasked with advising the Federal Government on the allocation and operation of the Equalization program within the parameters set out in the new framework.

Provincial premiers and territorial leaders through the Council of the Federation commissioned an Advisory Panel on Fiscal Imbalance. The provincial Advisory Panel was given a broader mandate to look at the underlying causes of and mechanisms to address the vertical and horizontal fiscal imbalances and make recommendations on ways to restore fiscal balance in the federation. Both the federal and provincial panels have consulted widely with governments, business groups and the academic communities and are expected to present their reports in the spring of 2006.

In November 2005 the Federal Government announced that it had granted the federal Expert Panel an extension of the deadline of its final report to the spring of 2006 and proposed extending the temporary arrangements to allocate Equalization among receiving provinces to include 2006/07.

Premier Pat Binns and Provincial Treasurer Mitch Murphy presented the Government of Prince Edward Island's views on Equalization and fiscal imbalances to the panels. Prince Edward Island believes that existing federal transfers for social programs need to be improved and the Equalization program urgently needs to be strengthened to reduce the growing horizontal fiscal imbalance among provinces.

The intent of the Equalization program is to ensure that all provinces are able to provide reasonably comparable services at reasonably comparable rates of taxation as described in section 36.(2) of the Canadian Constitution.

> *36. (2) Parliament and the government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation.*

In the submissions to the federal Expert Panel and the provincial Advisory Panel on Fiscal Imbalance the Government of Prince Edward Island stressed that the adequacy of the Equalization program is fundamental and urgently needs to be improved by including all provincial revenue sources and by raising provincial revenue capacity to a national standard. The Government of Prince Edward Island's believes that the basic formula for measuring provincial fiscal capacities by using the Representative Tax System (RTS) is correct.

Large swings in program payments resulting from revised estimates of fiscal capacity spanning several years can play havoc on provincial budgets. PEI supports measures that improve predictability of payments.

Estimates show that implementing the necessary improvements to the Equalization program will result in total payments exceeding the present federal funding limits currently defined in the new framework. In addition to being inadequate to properly finance Equalization, the preset limits will be unresponsive to changing fiscal circumstances and must therefore be revisited.

A New Era of Fiscal Relations

The Federal Election on January 23, 2006 resulted in a change in government and may well have marked the dawn of a new era in federal provincial fiscal relations. The Prime Minister of Canada Steven Harper has acknowledged the existence of fiscal imbalances and has pledged his government to reach a long-term comprehensive agreement that addresses both the horizontal and vertical fiscal imbalances.

Premiers believe that by working collaboratively with the Federal Government they can make meaningful and positive improvements to Canada's economic and social union. Key priorities that Premiers have identified for federal-provincial-territorial action includes addressing the vertical and horizontal fiscal imbalances, a pan-Canadian strategy for post-secondary education and skills training, a national multi modal transportation strategy and a formal role for provinces and territories in Canada's international activities.

The Government of Prince Edward Island is committed to working with the Government of Canada and the other provincial-territorial governments to achieve long-term solutions for these key priority areas.